International Strategic Alliances of Thai Financial Enterprises: A Study of the Formation Process

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Declaration

No portion of the work referred to in this thesis has been submitted in support of an application for another degree or qualification of this or any other university of other institution of learning

Abstract

This thesis is aimed at exploring and understanding important issues concerning the formation process of international strategic alliances of Thai financial enterprises (TFEs). International alliance strategies have been deployed as an important device to stabilise and internationalise a number of TFES. In addition, as the Thai financial industry has been growing rapidly and changing over the past few decades, the industry was chosen as representative of an industry that is dynamic and in a period of transformation. The study focuses on TFEs' international strategic alliances that had been established up to the end of 1996. This period is considered to be the introductory and growth stages of the Thai financial industry.

The main context of the research involves the formation stage of international alliances of Thai financial enterprises, comprising motives, criteria, and the timing of alliance development. The motives and underlying reasons stimulating international alliances, major considerations in foreign partner selection, and the strategic timing of alliance arrangements lie at heart of the research. Moreover, co-operative performance of the alliances also supplements the above issues. In this research, both quantitative and qualitative approaches are employed when collecting and analysing empirical data in order to maximise the reliability of the study. Questionnaire and interview surveys were arranged with a number of TFEs' executives throughout the industry who are involved in the formation process of the international alliances. Case study research was also conducted with three TFEs of different sizes, consisting of small, medium, and large companies. The rich information from the case study research, coupled with the statistical analysis from the surveys, offers a comprehensive picture of international alliances of Thai financial enterprises.

The final conclusions of the thesis are drawn from a comparative analysis of the quantitative and qualitative approaches. The empirical data obtained from both surveys and case study research are cross-examined and discussed. The main conclusions of the study are as follows. Thai financial enterprises (TFEs) seemed to pay significant attention

to both major aspects of alliance motives, including opportunistic (offensive) and risk-concerned (defensive) approaches. In greater detail, these motives are composed of *market-defensive motives, resource-defensive motives, market-offensive motives, and resource-defensive motives.* This was due to intense competitive pressures from both domestic and foreign markets as well as the increasingly unpredictable demand conditions in the industry. However, as the economic performance of the Thai financial industry had been prosperous for decades and the long-term view of the industry remained promising, TFEs' cross-border alliances were also aimed at acquiring and utilising partners' resources as well as further advancing their market and operational scope. The major variables influencing TFEs' international alliance motives consisted of internal and external factors. The internal factors involved *attributes of TFEs' executives, resource constraints, nature of TFEs' core business,* as well as *system, procedures, and structures of TFEs.* The external factors mainly included *industry factors, international factors,* and *economic and political factors.*

With regards to the foreign partner seeking process, TFEs usually sought their foreign prospective partners via connections and recommendations of their shareholders and executives. The major selection criteria of TFEs comprised *fit and balance of strategic intent, synergy and complementary skills,* and *consistency in operational cultural issues.* TFEs' selection criteria were primarily influenced by their *alliance motives,* which were concerned with alliance stability, business uncertainties, and opportunities. Other influencing factors also included *attributes of TFEs' executives, economic factors, resource constraints, mandates of TFEs, past experience of TFEs' executives,* and *international and globalisation effects.*

In order to increase the chances of accomplishing TFEs' alliance goals, TFEs' were likely to choose their alliance timing when *the overall prospects of the financial industry were attractive to foreign partners* as well as *when their competitive position was relatively strong.* The determination of timing was strongly influenced by *TFEs' alliance motives,* both market and resource-oriented approaches, as well as their selection criteria. The direct reasons explaining timing selection involved *the wider window of opportunities,* *including market and resource benefits*, at the time of alliance development. *The inadequate number of available foreign partners* and *forces from external threats* were also important reasons influencing TFEs' alliance timing selection.

For the period up to the middle of 1997, the performance of TFEs' cross-border alliances was satisfactory. This was due to the sincerity, trust, and consistent goals between partners, which resulted in mutual benefits and understanding. However, there were significant areas for of TFEs' alliance improvement in terms of technology and skill transfer, communication efficiency, continuity of discussions and negotiations, and fair terms of contracts in alliance agreements.

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PART I BACKGROUND AND INTRODUCTION

Chapter 1

Introduction to the Research

This introductory chapter contains four sections. First, the background of the research questions and the logic behind them are discussed. This section also offers a brief overview of discussions in the literature related to the major theme of this research. In this respect, explanations of the origins and expected outcomes of the research are provided. Second, the specific research questions and objectives of the study are outlined. Third, the research strategy of this study is shown. A brief discussion of the benefits of various research strategies is also presented. The final section of this chapter gives brief details of the rest of the thesis.

1.1 Background to the research

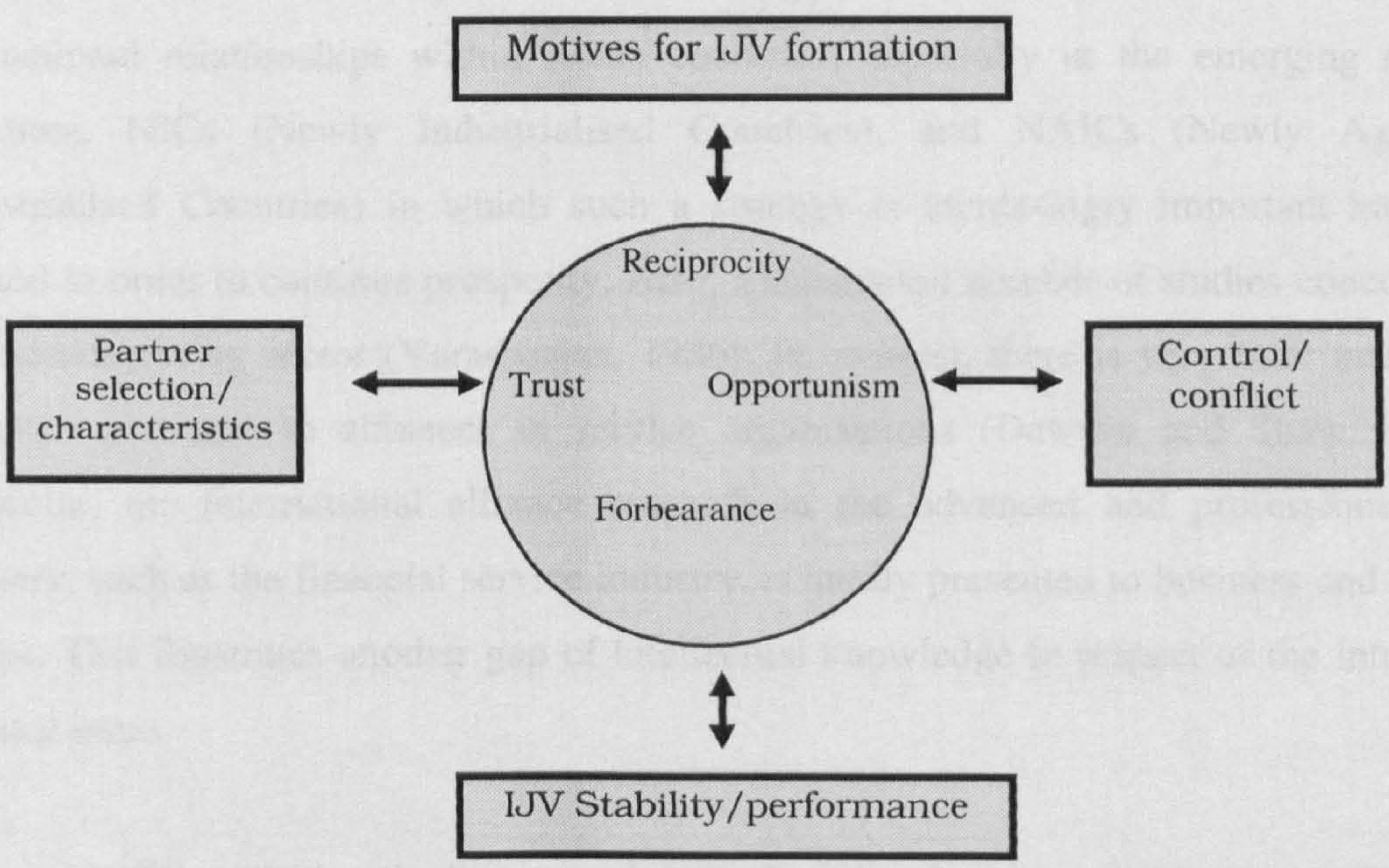
This research aims to explore the critical issues of international strategic alliances of Thai financial enterprises. This is because international strategic alliances are currently considered one of the most popular, attractive, and effective global strategies in order to deal efficiently with the complex and intense global environment. In addition, the researcher needs to investigate an industry which is dynamically growing and rapidly changing. Such an industry is also in the period of transformation from a total domestic focus to a complete global perspective, represented by the Thai financial industry. In this respect, the main issue of the study is centred on the formation process of international strategic alliances (ISAs) of Thai financial enterprises (TFEs).

The research in the area of international strategic alliance has grown rapidly over the past several years due to its importance to business circles. Yoshino and Rangan (1995) insist that implementation of international strategic alliances is significantly driven by the emergence of intense global competition, the continuous innovation process, the confrontation of growing market uncertainties, and the requirement of a flexible organisational capability. Also, the international alliance strategy is considered the most profitable and least risky method to operate business globally (Ohmae, 1989). Harrigan

(1987) further states that the strategy is utilised in order to promote organisational creativity and ease problems of world-wide excess supply. In the current information revolution, the rich information to be received from the global environment is also a relevant benefit from international alliances (Whittaker, 1995). Moreover, such a strategy is usually regarded as the latest phase in searching for innovation, entrepreneurial spirit, and globalisation (Murray, Mahon, and Mahon, 1993).

The substantial benefits indicated earlier have encouraged academics to widely discuss the international alliance issue. However, most of the literature focuses on how to achieve, manage, and control performances of successful international alliances. The study investigating the entire process of international alliance formation remains relatively rare. Recently, the core concepts of international alliance research have consisted of four dimensions as illustrated in figure 1.1.

Figure 1.1 An Integrative Framework for Core International Joint Ventures Concepts



Source: *Parkhe, A. (1993), P.231.*

In this respect, Parkhe (1996) states that motivations for forming international joint ventures (IJVs) may vary depending on the countries of origin, such as developed and developing countries. Thus, it is very intriguing to explore international alliance motivations of less developed countries rather than those of well developed countries that have been significantly investigated. In addition, as Lane and Beamish (1990) note that the most important consideration in forming a co-operative arrangement is probably the partner identification and selection. Many academics have attempted to find out what exactly constitute the right partner. Yet, the combination of desired characteristics of potential partners, particularly foreign entities, is still awaiting research.

Although the massive research on international joint venture has added rich insights into various aspects of inter-organisational relationships, literature in this field still lacks knowledge pertinent to the formation of inter-organisational relationships (Oliver, 1990). Thus, the context related specifically to formation processes of international joint ventures is of crucial importance and remains unclear. Such an interesting issue, then, deserves further study.

Furthermore, of the many recent studies, the literature and research projects rely heavily on the study of international co-operation of multinational and large, as well as entrepreneurial, firms in the USA. and European countries. Only a few studies refer to establishments of international relationships within Asian countries, especially in the emerging economic countries, NICs (Newly Industrialised Countries), and NAICs (Newly Agricultural Industrialised Countries) in which such a strategy is increasingly important and widely utilised in order to continue prosperity. Also, a substantial number of studies concentrate on the manufacturing sector (Varadarajan, 1986). In contrast, there is very little management literature pertinent to alliances in service organisations (Dawson and Shaw, 1996). In particular, the international alliance research in the advanced and professional service industry, such as the financial service industry, is hardly presented to business and academic circles. This illustrates another gap of intellectual knowledge in respect of the international alliance issue.

After critically reviewing the literature, it is evident that there is a clear gap in understanding in depth how various organisations establish international relationships and form networks of co-operation with foreign partners. This review of literature also offers an insight into the issue of IJV, particularly the underlying needs, strategic criteria, and alliance timings of this highly growing, drastically changing, intensely competitive, and increasingly internationalised industry.

In conclusion, the thesis, then, primarily concentrates on the formation process of international strategic alliances of the professional service industry, represented by the Thai financial industry. This issue brings together current knowledge and debates among various academic groups on the emergence of global strategy, as well as the innovative concepts of co-operative strategy and collaborative advantage.

1.2 Expected outcomes

It is expected that the findings from this study can be useful to the enterprises competing in a highly competitive and uncertain industry. The theories and frameworks of international strategic alliance explored in this study enable business enterprises to better cope with the intensity of competition via cross-border relationship formation. The firms also are likely to achieve better competitive positions and greater business opportunities through various competencies of foreign partners. Moreover, on the academic side, these findings can be used as a basis for further research in order to gain greater information about collaborative arrangements. Topics that could be further investigated are inter-organisational networks and relationships, the cross-cultural issues of strategic alliances, and other managerial implications of international strategic alliances.

1.3 Research questions and objectives

❖ **Research Questions**

The previous section indicates the current context and research of international strategic alliances. It also illustrates some gaps in research in various important points of this issue. This sheds some light on the issues concerning international strategic alliances that need further investigation, particularly international network formation in high growth and dynamically changing industries. Thus, the major research question of this research is as follows:

- ***In what ways and with what success have Thai Financial Enterprises (TFEs) developed their strategic alliances with foreign partners?***

The major research question can be defined in greater detail as the following key research problems:

-Why did Thai Financial Enterprises (TFEs) ally themselves with foreign partners?

-What factors influenced the foreign partner selection process of Thai Financial Enterprise (TFEs)?

-What factors influenced the timing of international alliances of Thai Financial Enterprises (TFEs)?

As mentioned earlier, the research emphasises the process of international strategic alliance formation. This is composed of international alliance planning, underlying reasons stimulating international alliances, expected benefits to attract international alliances, and major considerations in foreign partner selections. In addition, the research investigates the situations of TFEs when they establish international alliances with foreign partners, which in this study is referred to as *international alliance timing*.

From the content of the research questions, specific objectives can be defined in order to understand the aims of this research clearly.

❖ **Specific Research Objectives**

1. To examine the motivations and expected benefits of utilising International Strategic Alliances (ISA) of Thai Financial Enterprises (TFEs)

2. To explore the essential criteria influencing the foreign partner selection process of Thai Financial Enterprises (TFEs)

3. To determine the factors necessary for identifying the timing of international alliances of Thai Financial Enterprises (TFEs)

1.4 Research methodology

This study is designed to achieve synergistic results of the research by the deployment of both quantitative and qualitative methods. The questionnaire and interview surveys were employed in parallel with the case study research. The questionnaires were distributed to all executives of 54 TFEs that had engaged in alliances with foreign partners. The face-to-face interviews were also conducted with the top executives of these TFEs in order to elicit sensitive issues concerning the topic. The survey findings are expected to be a database for the case study research and increase the reliability and accuracy of the overall research findings.

The case study research was conducted with three TFEs of different size, including small, medium, and large, in order to cover a whole range of the industry. The selected TFEs comprise Pathara Dhanakit Finance and Securities Public Company Limited, SCCF Finance and Securities Public Company Limited, and Dynamic Eastern Finance Thailand (1991) Public Company Limited, which are large-, medium-, and small-sized respectively. The main tool for data collection in the case study research was in-depth and open-ended interviews. The interviews were arranged with all key executives who were actively involved in the process of international alliance formation of the companies. Furthermore, a broad range of data sources was also utilised in order to obtain a cross-examination. The investigation of various sources of documents, including co-operative contracts, performance reports, annual reports, financial statements, and other archival records of the companies was contained in the case study research process (See further details in chapter 5).

1.5 Outlines of the thesis

The rest of this chapter provides a simple outline of the thesis. The thesis comprises six parts. The first part involves background and introduction to this research. The first chapter aims to offer the background and fundamental issues of the research.

The second part involves a review of literature. The context, theories, and frameworks of international strategic alliances are analysed and discussed in detail in this section. Chapter two provides an overview and background of the theoretical perspectives of international alliances, including application issues and ethical considerations of such a strategy. Chapter three is centred on the formation stage of international strategic alliances. In greater detail, the chapter involves various discussions on strategic and logical thoughts about why enterprises initiate partnerships with foreign partners. The strategic criteria for selecting the foreign partners are also discussed in detail. The main ideas of foreign partner selection process are provided. Furthermore, the chapter discusses the issues associated with the timing of companies' international alliance establishment. All major hypotheses of the thesis are presented at the end of the chapter. The fourth chapter sheds light on the Thai financial system and its performance over the past several decades. Also, the development of cross-border relationships between Thai financial enterprises and their foreign partners are discussed in this chapter.

The third part focuses on research strategy and methodology. All ideas concerning research methods employed in the thesis are shown in chapter five. Choices of country base, specific industry, particular research issues, and detailed research methods are critically discussed.

The fourth part involves the analysis of empirical data gathered from the questionnaire and interview surveys. The sixth, seventh, and eighth chapters clearly reveal the conclusions and results from the survey analysis associated with motives, criteria, and timing of Thai financial enterprises' (TFEs) international alliances respectively.

The fifth part provides the in-depth case studies of three selected Thai financial enterprises. The case studies of Pathara Dhanakit Finance and Securities Public Company Limited, SCCF Finance and Securities Public Company Limited, and Dynamic Eastern Finance Thailand (1991) Public Company Limited are contained in chapter nine, ten, and eleven respectively.

The sixth part involves comparative analysis and conclusion. The twelfth chapter contains comparative analysis where quantitative and qualitative results are comparatively analysed and summarised to offer a complete and accurate picture of the research. The final chapter provides the overall conclusion of the research findings. This chapter also includes the recent financial crisis in Thailand and its impacts on the Thai economy as a whole. Here, the frameworks and theories with respect to international strategic alliances of the Thai financial industry are developed.

PART II REVIEW OF LITERATURE

Chapter 2
International Strategic Alliances: Theories and Applications

2.1 Introduction

This chapter involves fundamental concepts relating to strategic alliances, particularly cross-border collaboration. The discussion on collaborative and competitive advantages is provided in the first section. Definitions and various types of alliances are presented in the second and third parts respectively. The fourth and fifth sections shed light on the dimensions of strategic co-operation as well as the alliance model that shows eight complete steps in alliance development. Subsequently, the synergistic paradigm of collaborative arrangement is discussed. The final section summarises the path of strategic alliance development in the near future.

2.2 Overview

Over the last few decades, global competition provides the reason for the global allocation and utilisation of resources in order to achieve competitive edge, particularly firms that must compete in the global market place. The emergence of globalisation of demand, supply, competition, and strategy has forced business firms to transform themselves into more efficient and responsive forms. In the world of rapidly changing consumer tastes, cost structures, advanced technology, and complicated new world orders, firms cannot afford to deal with them alone. The new paradigm of business, namely cross border alliances and partnering strategy, becomes an essential strategic weapon of the current business world (Ross, 1994; Ohmae, 1989; Dicken, 1992).

This increasing interest in strategic alliances is demonstrated by the managerial activities of the leading countries' corporations. The cross-border strategic alliances between American firms and their foreign partners, for example, substantially outnumbered the number of subsidiaries fully owned by the US (Contractor and Lorange, 1988). In particular, multinational enterprises (MNEs) are increasingly engaging in international network co-operations (Dunning, 1993). Recently, international alliances have become an imperative strategy and not only for large-sized multinational companies. This is due to several trends manifest in the current world business environment, consisting of intensified competition, shortened product life cycles, increased cost of capital, and growing demand for new technologies (Vyas, Shelburn, and Rogers, 1995).

Competition VS Collaboration

Over the past few years, competitive advantage has seemed to be at the heart of firm's effectiveness. Competitive advantage helps businesses to maintain and pursue their competitive positions above competitors. There are at least three sources of sustainable competitive advantage, consisting of size, access, and control of options (Murray, Mahon and Mahon, 1993).

The first component relates to the size effect of the firm. In this respect, it is believed that the larger size, quantity, and scope of a firm's operations generally contribute considerable benefits to the business organisation in terms of *economies of scale, economies of scope,* and *learning experience* (Murray, Mahon, and Mahon, 1993). The economies of scale arise from efficiencies of operational activities at hiãgher quantities (Porter, 1985). Economies of scope refer to economies emerging from a variety of activities in multi-business corporations. The learning experience is the knowledge and expertise accumulated from the firm's past operations over a period of time (Murray, Mahon, and Mahon, 1993). In order to create competitive advantage, the business enlarges its size and accumulates its core competencies and skills in order to strengthen the competitive position of the firm.

The second major source of competitive advantage is accessibility. This centres on the control of access to strategic resources and potential markets (Murray, Mahon, and Mahon, 1993). These strategic resources strategically affect the firm's competitive position, including superior technology, expertise, knowledge, and reputation, as well as various important physical and financial assets. The control of access to markets, in terms of limitations of entry and firm's reputation to such markets, also results in competitive advantages (Covey, 1995).

The final source of competitive advantage is the control of options. This refers to the control over determining regulations and policies affecting performance, benefits and the competitive position of a business (Murray, Mahon, and Mahon, 1993). The firm that influences the legislation and regulations favourable to their own businesses generally gains substantial competitive advantage.

However, firms must create the competitive advantage on their own. Though they may be successful, it is time and resource consuming and firms cannot afford to make it alone. Thus, there has been much effort to discover a better and more efficient way to sustain firms' favourable competitive positions in the market. Recently, an emergence of an alternative school of strategic thoughts, called **collaborative advantage**, has become an answer for the question. The concept relies upon co-operative arrangements among industry participants, including competitors, customers and suppliers (Burton, 1995). Kanter (1994) defines the meaning of collaborative advantage as a key corporate asset derived from relationships with eligible partners. In this respect, the collaborative advantage is created by co-operations and co-ordinations, as well as by harmonious situations, rather than by intense competition between companies in the industry. Instead of competing, companies are more likely to co-operate with each other and exploit the synergy to be gained from such co-operation in order to accomplish their mutual goals and objectives.

The major benefits from the collaborative advantage comprise: gaining access to new markets; accelerating new product development; sharing research and development, marketing, and manufacturing costs; absorbing sophisticated skills and technology; and overcoming legal and trade barriers (Varadarajan and Cunningham, 1995; Flanagan, 1993). Lei (1994) also insists that a co-operative strategy, including alliance, can increase the effectiveness of new foreign market penetration and the expansion of the partner firm's scope of business. The collaborative advantage from strategic alliance then significantly affects the firm's cost structures and enhances its capability to gain more strategic resources (Morrison, 1994). In addition, McGee, Dowling, Megginson (1995) report that collaborative arrangements are most beneficial to new ventures in which their management officers possess advanced experience. The preservation of capital, increased purchasing power, and expansion of economies of scales are also significant benefits from the collaborative arrangement (Storey, 1994). Moreover, the partnering strategy can be employed in order to cope with threats from the fragmentation of the market (Lambert, 1992).

For these important reasons, the strategic alliance is becoming an intriguing weapon of numerous firms. Stile (1995) notes that the growth rate of alliances in industrialised countries is approximately 30% per annum. The popularity of strategic alliances, both across and within national boundaries, has also been disseminated to various newly industrialised and developing countries. Hence, it is evident that the alliance strategy is recognised as a significant strategy in achieving success, as well as being widely utilised throughout major areas of the world.

However, both approaches, including competitive and collaborative strategies, remain critically important to overall business firms. The competitive and the collaborative advantages cannot be absolutely separated in managing a business. The suitable combination of co-operative and competitive strategies yields substantial advantages to business firms.

The following sections are centred on in-depth discussion of strategic alliances, one of the most recognised co-operative strategies.

2.3 Definitions of Strategic Alliances

According to Varadarajan and Cunningham (1995), a strategic alliance is a manifestation of inter-organisational co-operative strategy. This strategy emphasises the pooling of the strategic resources and skills of participating firms in order to attain the common goals of the co-operation and specific goals of each partner. Also, Yoshino and Rangan (1995) define the strategic alliance as the trading linkages between partners that can effectively enhance the competitiveness of the participating parties through their mutual trades of technologies, skills, expertise, and products. In addition, Yoshino and Rangan further indicate the assumptions of a strategic alliance. First, the participating firms agreeing to pursue a set of mutual goals of co-operation must remain independent from each other. Second, the partner firms should share the benefits and the control over performance of the assigned tasks of the alliance. Finally, the participating firms are required to contribute to each other on a continuing basis in terms of technologies, products, skills, or expertise. In this respect, it means that such a relationship must entail mutual co-operation and continuous contributions from the partners. Meanwhile, even though the partner firms participate in sharing responsibilities and benefits, they are still independent entities.

Besides, Dull, Mohn, and Noren (1995) note that partnering or alliances is an agreement of two or more parties to alter the ways that they do business, integrate and jointly control their mutual business system, and share benefits to be gained from such an agreement. With this definition, the favourable impacts benefiting the partner firms should be obtained from new processes, behaviours, and activities emerging from the strategic alliance. Similarly, Ohmae (1989) insists that a strategic alliance must be concerned with the fundamental independence of each participant. At the same time, such an alliance has to share control over all its activities. Moreover, several academics define the partnering strategy as the number five "P" of the marketing mix, traditionally including product, price, place, and promotion (Dull, Mohn, and Noren, 1995). With the fifth "P", the partner business obtains greater marketing advantages by utilising the complementary skills, expertise, and facilities of their partners, and by expanding the scope of customer bases in order to pursue the future growth of businesses.

In brief, the strategic alliance can be defined as various sorts of interfirm co-operations, ranging from contractual agreements between partners to establishments of new business entities. These business relationships might be involved in equity investment and control of each partner. Most importantly, the dominant point of a strategic alliance is that it is self-governing or that each partner is independent. Although the partner firms are obliged to be responsible for the benefits and tasks in the co-operation, they still retain the authority to exercise power and competitive strategies on behalf of their own corporations. The definition of alliances is summarised in figure 2.1.

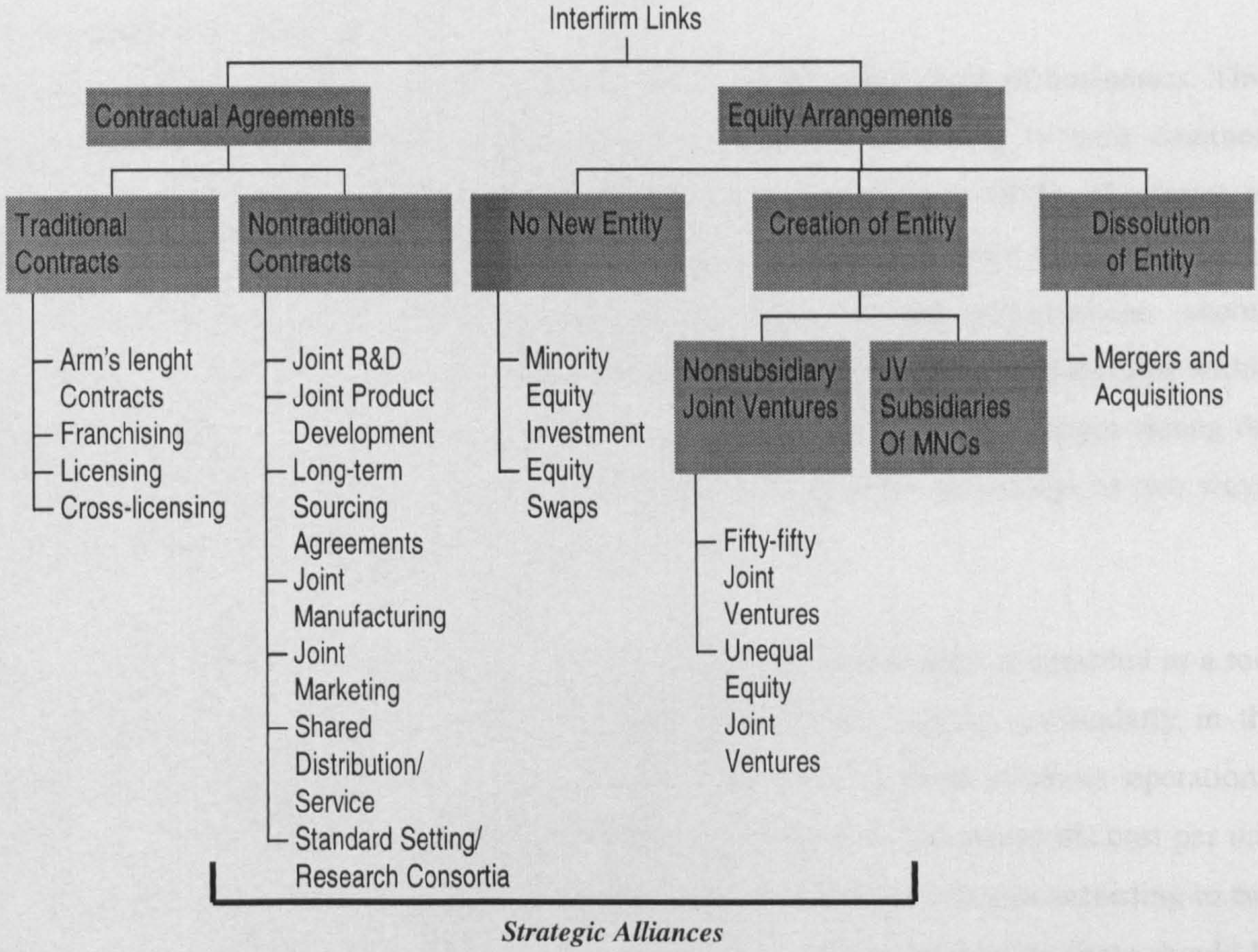


Figure 2.1 Range of Interfirm Co-operations

Source: Yoshino and Rangan (1995), *'Strategic Alliances: An Entrepreneurial Approach to Globalization'*

2.4 Types of Strategic Alliances

Strategic alliances are classified on the basis of 3 different criteria. The first classification is based on resources, focused mainly upon the co-operations. The second classification relies upon the nature of the trading relationships. The third classification uses the characteristics of the firms participating in the alliance co-operation.

2.4.1 Resource-based Approach

Porter (1985) suggests the forms of business interrelationships should be classified by the major characteristics of resources/assets involved in the co-operations. These include tangible and intangible interrelationships.

❖ Tangible interrelationships

Tangible interrelationships involve various activities in the value chain of businesses. This co-operation arises from sharing these activities among firms owing to their common buyers, distribution channels, technologies, and other factors (Porter, 1985). The forms of such interrelations are derived from the major components of the value chains, including shared infrastructure, shared technology development, shared procurement, shared marketing functions, and shared production functions. The various interrelationships within the value chain are utilised in order to sustain and create competitive advantages among the business units involved. The shared activities lead to competitive advantage in two ways, cost advantages and differentiation advantages.

Regarding the cost advantages, sharing activities among business units is regarded as a tool for achieving considerable economies of scale. The activity sharing, particularly in the marketing function, increases volumes or scales of operation and enhances operational skills. The larger scale and better skills from shared experience can reduce the cost per unit of products and services. The partner firm can achieve the cost advantages according to two conditions (Porter, 1985). First, the operational activities shared with other firms should be major cost drivers or significant proportions of the firm's cost structures. Second, the cost advantage arises when the amount of costs reduced from the interrelationship is greater than the rising costs from the co-operation. The costs from co-operation involve the incremental expenditures occurred when the various business units build up a co-operation network. Moreover, such a partner firm is required to modify some of its behaviour. This is because the partner firm has to perform in the optimal way for all firms involved in the co-operation rather than only for its own benefit. This can raise the cost that Porter calls "compromise cost".

With reference to the differentiation advantage, the trading interrelationships enhance the degree of differentiation and uniqueness of firms' products/services due to more innovative ideas obtained from alliances. Moreover, the costs of advancing the firm's technology can be shared between the partners involved. In this respect, the interrelationships will be most favourable when the shared activities involve the key success factors as well as affecting the important cost drivers of the products and services.

❖ **Intangible interrelationships**

This relationship focuses upon co-operations of intangible assets/resources of business units and attempts to create competitive advantages through exchanging and transferring such assets/resources. Porter (1985) suggests that the intangible assets emphasise skills and competencies which are not in the activities of value chains. Reputations, brand names, images, and information are also regarded strategically as intangible assets. The major functions of the intangible relationship involve transferring and exchanging the intangible assets among the participating firms, which lead to a competitive advantage when the improvement in costs or differentiation of the firms exceeds the costs of learning and transferring competencies among business units (Porter, 1985).

However, the intangible assets/resources are not easily transferred due to their particular characteristics which are invisible. Therefore, the success of this interrelationship depends upon not only acute understandings and co-operative techniques but also efficiency and effectiveness in the transferring and receiving processes of the firms involved. Importantly, the intangible interrelationships are recognised as major sources of *synergy,* one of the most desirable factors in a collaborative arrangement. The intriguing concept of synergy will be further discussed later. Yet, both tangible and intangible business relationships are not mutually exclusive. They can simultaneously happen in the business relationship and enhance the capability of the firms to create competitive advantage.

2.4.2 Relationship characteristic approach

The second classification of the strategic alliances relies upon the major activities encompassed by the trading relationships.

❖ **Marketing co-operation**

The market-oriented co-operation involves an agreement of several marketing activities between the partner firms. This agreement is aimed at supporting and enhancing organisational effectiveness in terms of selling, distributing, and promoting the participating firms' products and services. Often, the marketing alliances are utilised to gain access to new potential markets, particularly when firms do not possess adequate resources to penetrate these markets alone (Lessem, 1989). Rao and Ruekert (1994) present another kind of marketing co-operation, the brand alliance. This means that two or more products from different firms are jointly branded. The brand alliance can help an individual product that hardly succeeds by its own brandname and image. The successful brand alliance between IBM and Intel Co., for example, can enhance the prestige and reputation of their brandname. Their products, then, achieve a great success in their target markets.

Overall, the patterns of marketing alliances include the common brand name, cross-selling of products between the partners, bundled or packaged selling of the partners' products, shared sales forces, shared service/repair networks, shared distribution systems, shared buyer or distributor financing organisations, and shared marketing department (Porter, 1985).

❖ **Research and development co-operation**

The research and development (R&D) alliance primarily involves pooling, sharing, exchanging, and transferring existing technology necessary to survive and succeed in the competitive business environment (Dunning, 1993; Bidault and Cummings, 1994). Sharing risks and improving the cost position of the alliance requires both partners to share their knowledge concerning the immediate products or manufacturing process under development (Lei and Slocum, 1992). This kind of co-operation normally originates from the common product and process technology of the participating firms (Porter, 1985). In addition, R&D agreements, which initiate from transferring and sharing technological assets, sometimes progressively expand their scope to the production or marketing alliances (Dunning, 1993). R & D alliances are also deployed as a device to transform the business from labour-intensive to a technology-driven one (Marriott, 1995). Therefore, the firms, particularly in various developing countries in which the labour cost is a principal component of their cost structure, are eager to use alliances so as to reduce cost and promote cutting-edge technology.

However, R&D alliances are concerned with the invisible configuration of technology which cannot be traded as a commodity. This is due to the difficulties of evaluating the value of such knowledge, of monitoring of technology transfer, and of transferring expertise across organisations (Gulati, 1995). Further, McArthur and Schill (1995) suggest that many European managers spend considerable amounts of time detecting the problems in technology alliances rather than focusing upon such alliances' successes. This is also regarded as a major barrier to effective R&D co-operations.

❖ **Production and operation co-operation**

The production and operation alliances include shared inbound logistic systems, shared assembly facilities, shared component fabrication, shared manufacturing support systems, shared quality assurance/control systems, and shared factory infrastructure (Porter, 1985). The most important advantage from the production alliance is cost reduction, that is, economies of scale and scope. The major operational facilities including machinery, inbound logistic equipment, assembly line and other manufacturing infrastructure are shared between partners. Economies of scale and scope result from fixed cost allocation of the sharing of production facilities. Technology advancement also benefits from production alliances. Co-utilisations of various production facilities always simultaneously promote the transference and assimilation of the partners' competencies. The operation costs are also reduced due to the technology transferability and improvement. Often, the production and operational alliances are established in accordance with marketing co-operations due to a close relation between these two functions.

❖ **Strategic resource co-operation**

The strategic resources of an organisation consist of capital, managerial skills and expertise, human resources, and various competencies. The first type of this co-operation is financing co-operation, including the joint fund-raising programme and shared capital utilisation programme. (Porter, 1985). The major advantages from the joint fund-raising programme are economies of scale as well as greater negotiating power from a large amount of capital required. The capital funded by this programme usually obtains a lower interest rate and transaction costs per unit, as well as more favourable terms of credit than those of individually raised funds.

The exchange of human resources and the establishment of joint training programmes are also important strategic resource co-operations. This co-operation is a particular concern of advanced or professional service firms, which require highly qualified staff to serve the needs of their customers. Also, the transference and learning process of managerial skills, expertise, and other competencies between the partner firms also simultaneously exists with the human resources co-operation. The connections, relationships, and familiarities of any participating business units can also be shared to enhance the overall partner firms' capabilities in the operating businesses. The synthesis of connections and relationships among partners also establish world-wide superior linkages to globally pursue the businesses' prosperity. However, most of the strategic resources alliances do not directly involve reducing costs (Porter, 1985). Such alliances, then, will benefit the participating firms through supporting and promoting the firms' capability to efficiently compete with major competitors.

❖ **Procurement co-operation**

Supplier alliances are created by two or more firms that need the same materials, equipment, and various resources for their operations (Porter, 1985). It is aimed at serving as an outsourcing or long-term supply agreement to reduce capital investment for R&D, new products as well as increase dividends to stockholders (Lei and Slocum, 1992). Such alliances pool the amount of purchases between the partners and increase negotiating power with their major suppliers. Also, the supplier alliance helps the firms to obtain cheaper, better quality, and more timely supply. Another stimulus to build up this co-operation is the strong interdependence between suppliers and customers. This strong interdependence motivates both supplier and customer firms to collaborate with each other. From the supplier firm's viewpoint, it is necessary to build up relationships with its major customers in order to ensure the revenue sources as well as increase future orders from its customers. From the customer firm's perspectives, the dependence of supply sources forces the firm to strengthen its relationship with suppliers. This helps guarantee the flow of needed inputs in terms of quality, quantity, and timeliness.

Many domestic firms believe that procurement alliances can be regarded as outsourcing or long-term supply agreements to promote their own performances (Lei and Slocum, 1992). Under the current environment in the world economy, the greater demand for higher quality supplies and materials encourage the firms to establish procurement agreements to receive the needed supplies efficiently and effectively.

In the future, most major companies are likely to tend to concentrate on a few important suppliers instead of contacting a number of suppliers (Economist, 1994). This trend encourages a company to establish rapport with a smaller number of suppliers due to the benefits from transaction cost reduction and stronger outsourcing networks.

2.4.3 Participant characteristic approach

The participant characteristic approach identifies forms of strategic co-operation by considering the direction of relationships. In this respect, the strategic co-operations are divided into three major groups, vertical, horizontal, and external alliances. The figure 2.2 exhibits vertical, horizontal, and external alliances.

2.4.3.1 Vertical alliances

❖ **Upstream Co-operation**

The upstream co-operation is similar to the supplier alliance discussed earlier, which is the relationship between a firm and a supplier who provides various resources necessary for its operations. The supplier alliance is one of the major upstream relationships. Such an alliance aims to ensure outbound logistic stability. Besides, the strong relationship with a supplier enhances outsourcing effectiveness of the firms in terms of quality, price and timeliness, which are currently considered the critical success factors for business.

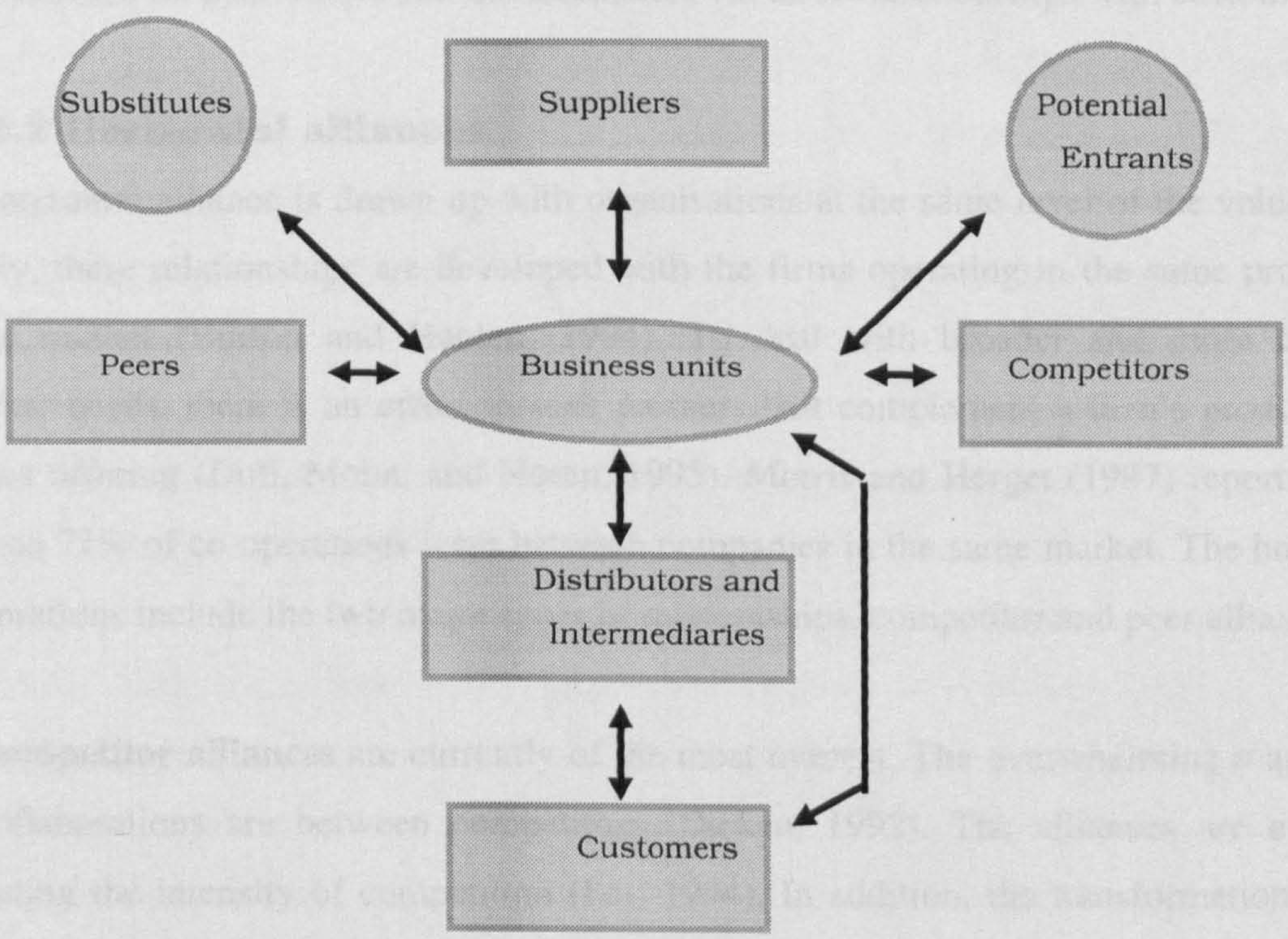


Figure 2.2 Vertical (Upstream and Downstream), Horizontal, and External Alliances

❖ Downstream Co-operation

This alliance aims to increase downstream stability, which links a firm's distribution channels or target customers. The first is the establishment of the trading relationships with distributors or intermediaries in the industry which support flows of goods and services to their customers. The relationship with the intermediary is then recognised as a critical step of a manufacturing business wishing to create the necessary linkage between their business and customers. Such an intermediary also provides a firm with reliable and timely information on the attitude, preferences, and responses of customers. The alliance not only offers the firm an opportunity to better respond to market needs but also indirectly strengthens the relationship with its customers. This enhances the downstream stability of all manufacturing firms.

On the other hand, the purpose of customer alliances is to capture their target markets and to maintain pleasant relationships with their customers. The close and direct customer partnership helps develop new products, enter new markets, and build skills for creating customer value (Dull, Mohn, and Noren, 1995; Economist, 1996). This also reduces the firm's reliance on distributors and intermediaries via direct relationships with customers.

2.4.3.2 Horizontal alliances

The horizontal alliance is drawn up with organisations at the same level of the value chain. Usually, these relationships are developed with the firms operating in the same product or service market (Burton and Hanlon, 1994). To deal with broader and more complex customer needs, there is an effort to seek partners that complement a firm's products and services offering (Dull, Mohn, and Noren, 1995). Morris and Herget (1987) report that no less than 71% of co-operations were between companies in the same market. The horizontal co-operations include the two major types of relationships, competitor and peer alliances.

The competitor alliances are currently of the most interest. The overwhelming majority of the collaborations are between competitors (Dicken, 1992). The alliances are aimed at alleviating the intensity of competition (Lei, 1994). In addition, the transformation from a competitor to become a partner benefits the participating firms in terms of a stable business environment and positive synergy. This eventually enhances the firm's competitive capability and helps gain more advantages from business activities in the industry.

The peer alliance, another form of the horizontal co-operation, contains a similar process and concept to the competitor alliance. However, instead of an agreement with an existing and direct competitor, peer alliances refer to the alliances established with companies that have prior business relationships with the firms. The satisfactory progress, performance, and results from such co-operations stimulate the participants to strengthen their co-operation. Thus, establishing a peer alliance agreement enhances the participants' competitive and bargaining power.

2.4.3.3 External alliances

The external alliances are co-operations established with the potential entrants or with the producers of substitutes or complements in other industries (Burton and Hanlon, 1994). Currently, this alliance is relatively less in number compared to other types of alliances. This may be because the potential partners of the external alliance do not directly contact the firms, unlike those of other alliance forms. However, there is some recent evidence indicating an increasing concern about external alliances.

Substitute alliance, the first form of the external alliance, is a partnership with the producer of substitute or complementary products. This relationship aims to reduce threats from substitutions. These substitutes might be either entirely or partly substituted. This co-operative arrangement helps to reduce the substitution from products or services outside the industry and to identify the clear boundary of each partner's target market. As a result, the intensity of competition between substitute firms is alleviated. The substitute alliance also leads to a more extensive form of co-operation including a marketing, personnel, production, and R&D alliance.

On the other hand, the growth of an **alliance with a potential entrant** currently represents a defensive approach of a business. This alliance attempts to eliminate a threat and instability emerging from an invasion by the potential entrants, particularly large-scale and multinational corporations. Instead of waiting for such a threat, the firm persuades these potential competitors to become its partners and attempts to mutually gain advantages from the collaboration.

All types of strategic alliances are not mutually exclusive. There might be several forms of co-operation simultaneously occurring in one collaborative arrangement. This depends upon the conditions and goals of all firms participating in such a collaboration.

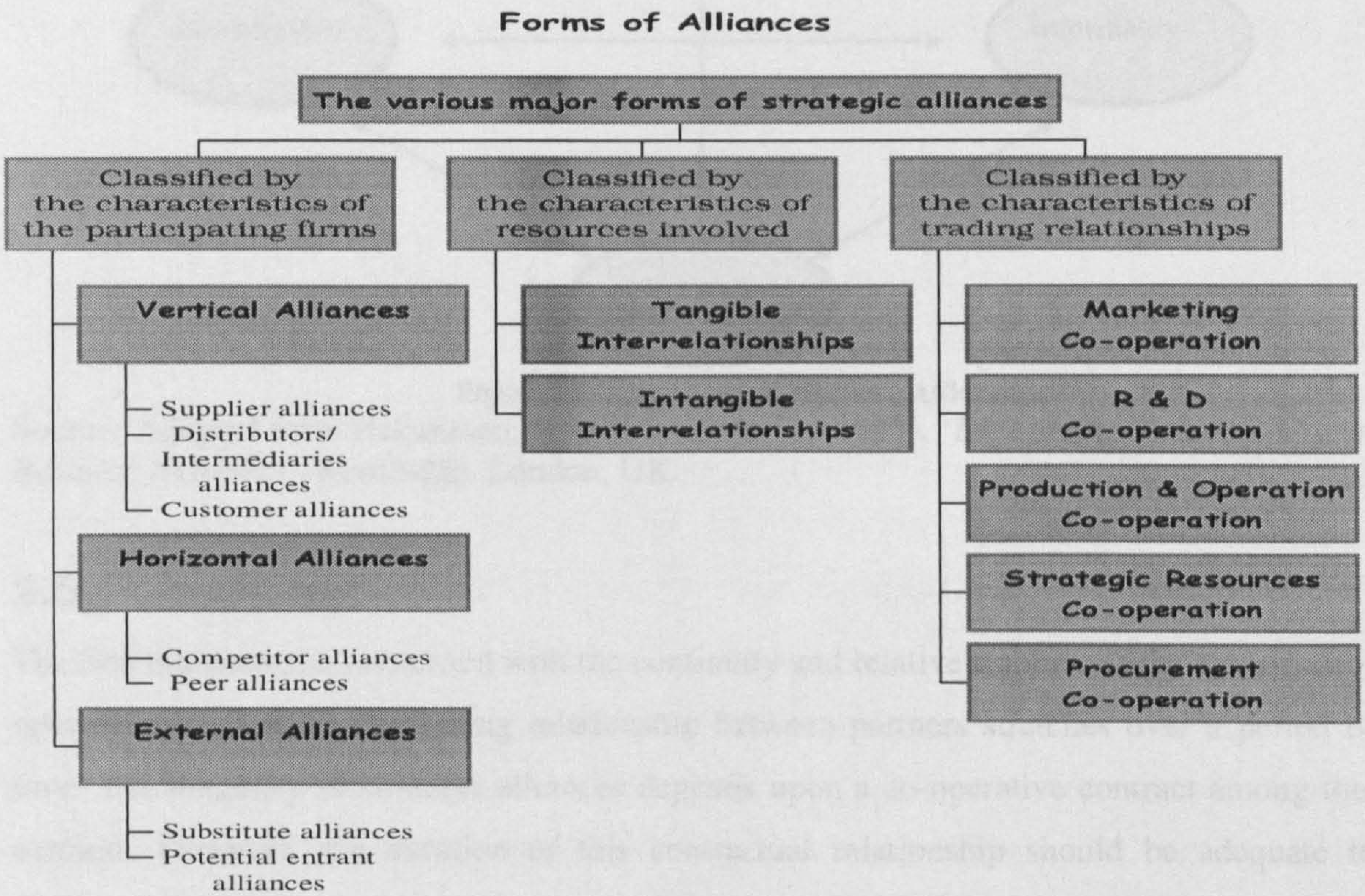


Figure 2.3 Forms of Alliances

2.5 Dimensions of Strategic Alliances

In order to thoroughly understand the structure of strategic alliances, the common core characteristics of collaborative arrangements should be identified and analysed in greater detail (See Figure 2.4). According to Hakansson and Snehota (1995), the dimensions of alliances are summarised as follows.

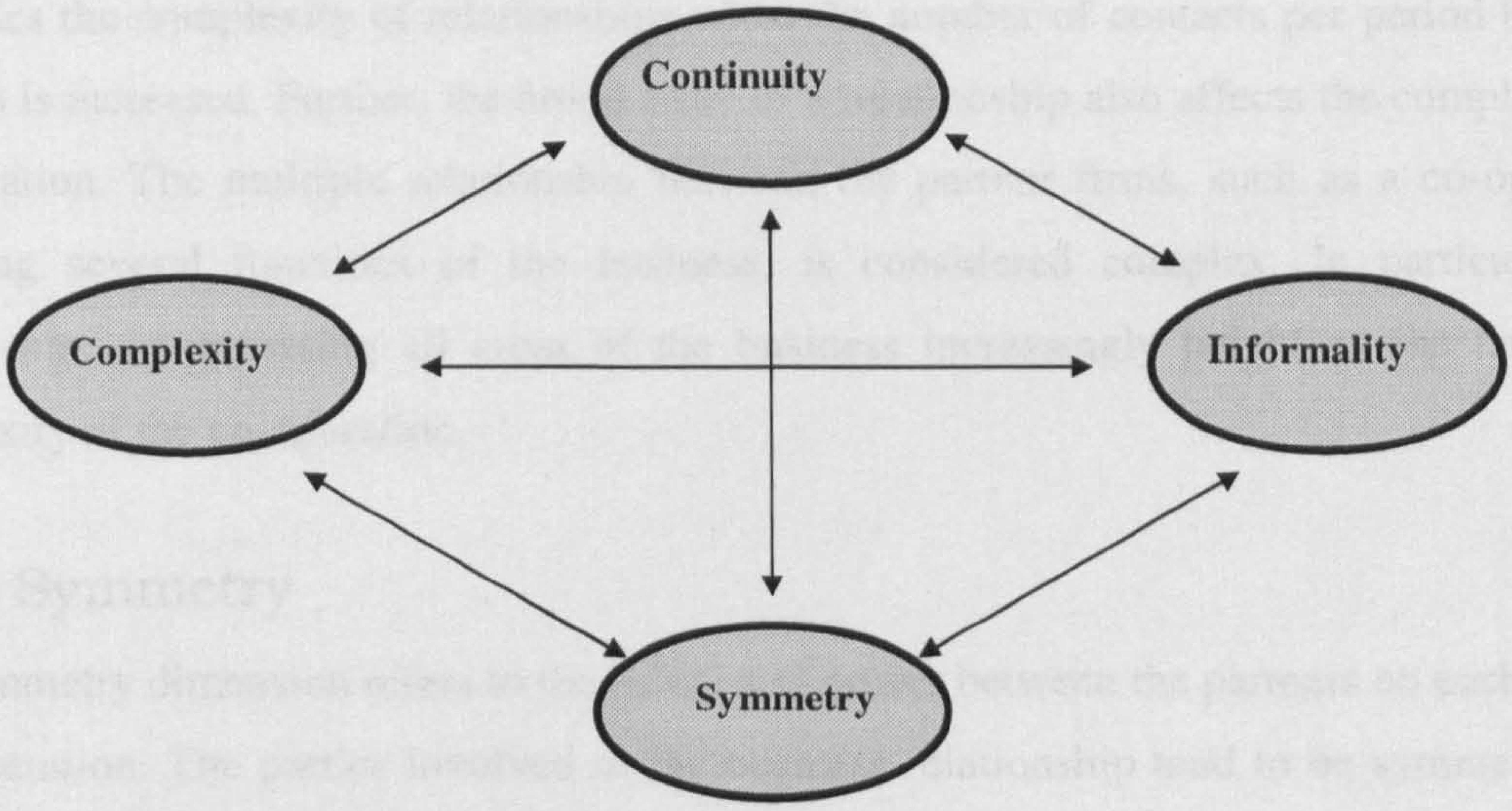


Figure 2.4 Dimensions of Strategic Alliances

Source: Adapted from Hakansson, H. and Snehota, E. (1995), '*Developing Relationships in Business Networks*'. Routledge, London, UK.

2.5.1 Continuity

The first dimension is concerned with the continuity and relative stability of the strategic co-operation. In general, the trading relationship between partners stretches over a period of time. The longevity of strategic alliances depends upon a co-operative contract among thte partners. However, the duration of this contractual relationship should be adequate to manage deals and business transactions for mutual benefits. Not only is the longevity of the trading relationship considered, but also the frequency and continuation of the firm's contact with its partners. Normally, the partner firms repeatedly contact each other as well as gradually expand the scope of their co-operation. In respect of the continuity, the development of alliances ranges from a limited involvement to an extensive set of relationships.

2.5.2 Complexity

The complexity dimension is considered in several aspects. The first aspect involves number, type, scope, and pattern of contacts within the relationship circle. The greater the number of participants involved implies a higher degree of complexity. Also, the scope of operation is used to indicate the degree of alliance complexity. For example, the extensive scope of an international collaborative arrangement is usually more complicated than a domestic alliance. Likewise, the frequent direct contact involved in a co-operation also multiplies the complexity of relationships when the number of contacts per period between partners is increased. Further, the broad array of a relationship also affects the complexity of co-operation. The multiple relationship between the partner firms, such as a co-operative involving several functions of the business, is considered complex. In particular, the relationship encompassing all areas of the business increasingly heightens the degree of complexity of the co-operation.

2.5.3 Symmetry

The symmetry dimension refers to the balance of power between the partners on each side of a co-operation. The parties involved in the business relationship tend to be symmetrical in terms of resources, capabilities, and bargaining power. Brouthers, Brouthers, and Wilkinson (1995) suggest that a small difference in size of both firms help the partner firms work better together and on a longer lasting basis. Thus, the typical business co-operation attempts to achieve the symmetry between the parties and equalise their positions within the relationship.

2.5.4 Informality

The informality dimension relates to the degree of adaptability and flexibility of the regulations, agreements, rules contained in the co-operative contract. According to Hakansson and Snehota (1995), the degree of alliance formalisation affects the effectiveness of the co-operative arrangement. The business relationship established on the basis of informal mechanisms is considered more effective than the formal collaborative arrangement (Hakansson and Snehota, 1995). This is because such a co-operation is more responsive to various environmental uncertainties.

The analysis of the core dimensions of each strategic co-operation is useful to identify strong and weak features of a co-operation in order to achieve effective business alliances. Hakansson and Snahota, (1995) further suggest that a stable alliance is likely to have four dimensions, consisting of a long-lasting relationship, a broad term of contractual agreement, relatively balanced power, and an informal relationship.

2.6 Strategic Alliance Model

The overall comprehensive picture of strategic alliances is presented in figure 2.5. The major processes of developing, managing, and controlling the various necessary activities of partnering relationships are identified and described as follows.

❖ **Step 1: Strategic Reassessment & Analysis**

The formation of alliances starts by reassessing the business environment, evaluating the mode of competing, and searching for opportunities to strengthen competitive positions (Yoshino and Rangan, 1995). Scanning the external environment and the industry's competitive situations provides opportunities and threats to the operating businesses. Meanwhile, strengths and weaknesses of the firm can be learned by analysing various internal aspects of the firms, including the nature of investment policies, core competencies, configuration of distribution network, and target customers. Information on opportunities and threats sheds light on any favourable circumstances promoting the firm's prosperity through utilising alliances, as well as on pressures refraining them from employing co-operative strategies. On the other hand, a clear understanding of strengths and weaknesses is used to assess the firm's readiness to constitute and handle a complicated collaborative arrangement. In particular, this issue needs to be critically considered, particularly in the case of international strategic alliances, which are more complicated.

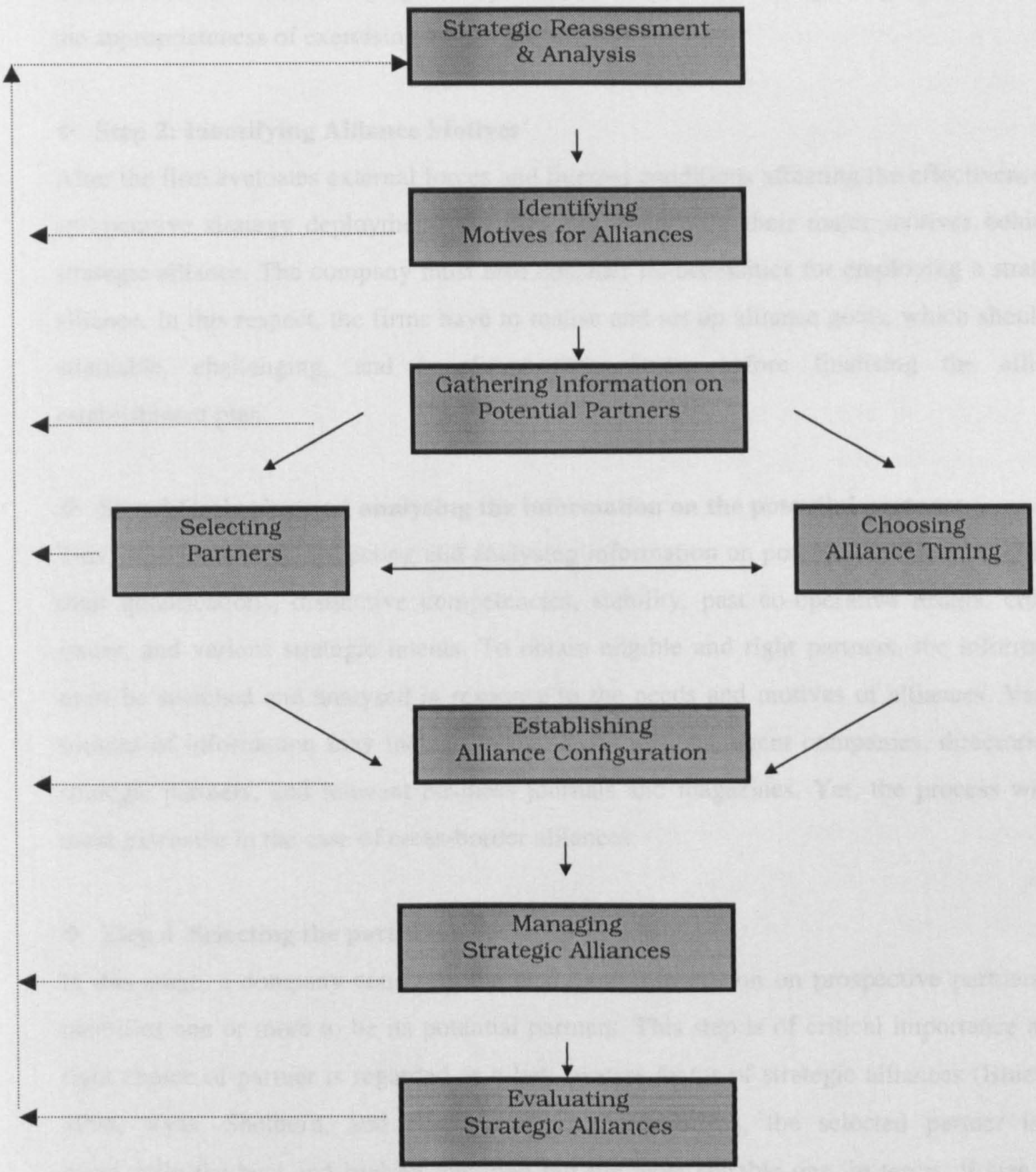


Figure 2.5 Strategic Alliances Model

Vyas, Shelburn, and Rogers (1995) also suggest that the analysis of opportunities and strengths provides necessary information to set up short-term and long-term goals, while the weaknesses and threats offer directions to establish strategic alliances. The critical information on the firm's strategic analysis, in this step, offers managerial guidance to assess the appropriateness of exercising a strategic alliance.

❖ Step 2: Identifying Alliance Motives

After the firm evaluates external forces and internal conditions affecting the effectiveness of co-operative strategy deployment, the firm has to identify their major motives behind a strategic alliance. The company must also consider its necessities for employing a strategic alliance. In this respect, the firms have to realise and set up alliance goals, which should be attainable, challenging, and benefiting their firms, before finalising the alliance establishment plan.

❖ Step 3 Gathering and analysing the information on the potential partners

This stage focuses on collecting and analysing information on potential partners in terms of their qualifications, distinctive competencies, stability, past co-operative results, cultural issues, and various strategic intents. To obtain eligible and right partners, the information must be searched and analysed in response to the needs and motives of alliances. Various sources of information may include business connections, agent companies, directories of strategic partners, and relevant business journals and magazines. Yet, the process will be more extensive in the case of cross-border alliances.

❖ Step 4 Selecting the partners

In this stage, a company considers the analytical information on prospective partners and identifies one or more to be its potential partners. This step is of critical importance as the right choice of partner is regarded as a key success factor of strategic alliances (Bluestein, 1994; Vyas, Shelburn, and Rogers, 1995). Nevertheless, the selected partner is not necessarily the best and highest qualified but the most suitable one, in terms of size, goal compatibility, cultural proximity, complementary competencies and trustworthiness (Yoshino and Rangan, 1995; Vyas, Shelburn, and Rogers, 1995; and Brouthers, Brouthers, and Wilkinson, 1995).

❖ Step 5: Choosing the timing for alliances

The fifth step focuses on the point of "time" for companies to enter into an alliance. Information analysed in this step is primarily derived from the strategic analysis at the first step. Often, the information received from the strategic and environmental analysis must be critically reconsidered and updated as drastic changes in business environment may have occurred. Besides, partner firms should pay particular attention to new conditions and choose timings when their alliances would be most beneficial and least disadvantageous. Negotiating power between partners is taken into account in this stage. All changing variables are brought into consideration in order to determine timing to suit the conditions of firms and environments and to attain the motives of alliances.

❖ **Step 6: Establishing alliance configuration**

The sixth step is concerned with the establishment of strategic alliances. A company must decide upon the structures of trading relationships, major working mechanisms, and various contributions from each partner. At this point, various terms of the alliance contract are raised to be discussed and agreed. The responsibilities and benefit allocation among partners are determined. The configuration of the strategic alliance, then, begins to appear.

❖ **Step 7: Managing the strategic alliance**

After settling all the major mechanisms and configurations of a strategic co-operation, a company must learn how to utilise the alliance as a vehicle for transferring and absorbing strategic resources as well as creating positive synergy from a collaboration. Management has to learn how to achieve a balance between co-operation and competition in the partnership as well as considering complicated issues associated with interrelationships among strategy, structure, systems, and staff in the partner firms. According to Yoshino and Rangan (1995), alliance management involves a clear understanding of 1) the nature and scope of an alliance, 2) firm's core competencies, 3) strategic mind-set to deal with co-operation, 4) resource requirements, 5) the need to ensure interfunctional co-ordination, and 6) the potential of network evolution. Meanwhile, the partner company must attempt to handle existing problems and avoid major potential conflicts with its partners in order to sustain mutual advantages within the co-operative circle.

❖ **Step 8: Evaluating the strategic alliance**

The last phase is an evaluation and control of strategic alliance performance. This is aimed at increasing the possibility to accomplish the objectives of the collaboration. Both on-going management and timely intervention play a part in ensuring alliance effectiveness (Yoshino and Rangan, 1995). In this respect, the partner company must regularly review the progress of its alliance. In the case of discovering undesired events, the company will correct and implement new practical methods to gain the expected benefits. Assessing alliance performance leads to the reconsideration of strengths and weaknesses of an alliance-based strategy. Finally, the feedback from every step will be sent to the strategic reassessment and analysis stage to reconsider and modify the conditions and strategies for further efficient strategic alliance management.

2.7 Synergistic Paradigm of Strategic Alliance

Synergy has been one of the major strategic weapons of business units since 1965. H. Igor Ansoff (1988) defines synergy as one of four components of strategy and suggests that synergy is normally described as the simple mathematical equation, '2+2 = 5'. It means a combined performance of integrated businesses, which is greater than the sum of its parts. Buzzell and Gale (1987) also offer similar ideas that synergy is the greater performance of a group or cluster relative to the total performance of its components. With respect to a diversified company, synergy is also described as a corporate portfolio of businesses which is worth more than the stand-alone entity businesses (Campbell and Luchs, 1992). In brief, synergy is co-operative activities of discrete entities that yield a greater total amount effect than the sum of the effects taken independently. Such co-operative activities include various forms of co-operation strategies, M&A (merger and acquisition) strategies, and diversification strategies. In this respect, synergy is known as super-additivity, in which the valuation of a combination of business units in a collaborative group exceeds the sum of valuations for stand alone units (Davis and Thomas, 1993). Also, synergy is a reason why firms co-operate with each other in order to gang up on the suppliers, reduce their operational costs, share their facilities, and integrate their ideas, skills, and experience (Purchasing, 1995).

According to Ansoff (1988), major types of synergy consist of sales synergy, operating synergy, investment synergy, and management synergy. Sales synergy occurs when firms' products use common distribution channels, sales forces, warehousing, and various advertising and promotional activities. A higher combined sales volume increases productivity of the firms' marketing function. Operating synergy reduces costs resulting from a higher utilisation of the firm's resources, spreading overhead, advantages from common learning curves, and large-lot purchasing. Investment synergy is incremental benefits emerging from joint uses of firms' investment, including plant, machinery, tooling, research and development facilities. Management synergy results from the solid experience and capabilities of management of different backgrounds. Broader viewpoints and long-term vision of the executives provide forceful and effective guidance to partnered or newly merged firms.

Michael E. Porter also insists that synergy becomes a critical source of competitive advantage during the 1990s (Purchasing, 1995). The major purpose of diversified firms is to pursue positive synergy from their business linkages among Strategic Business Units (SBU) (Mahajan and Wind, 1988). These firms need to achieve synergy for earning higher profits and allowing the firms to operate more efficiently. Due to the huge benefits of positive synergy, it becomes one of the major motives in establishing a collaborative arrangement (Veugelers and Kesteloot, 1994).

However, there is no absolute guarantee that synergy from overall collaborative strategies can always be achieved and increase profitability (Mahajan and Wind, 1988). Many synergy-seeking firms fail to obtain the expected benefits from their co-operative strategies. Recently, potential benefits from synergy have been questioned. Some firms have begun to turn against the synergy-creating strategy. Various forms of co-operative and synergy-seeking strategies are also under suspicious consideration.

Nevertheless, strategists realise that there have been huge differences among various forms of synergy-creating strategies, consisting of merger and acquisition, diversification, and strategic alliances. Regarding mergers and acquisitions, the major purpose of the strategy is to acquire positive synergy from a combined unit between two or more parties. Yet, there is only a little empirical evidence demonstrating the successful performance from positive synergy of the combined unit (Mahajan and Wind, 1988). This is due to the negative impacts of mergers and acquisitions which make the integrated firms become larger, slower in responsiveness, and greater in bureaucracy.

Likewise, diversification strategy is also being questioned in its outcomes as many diversified companies have split off and liquidated some unprofitable parts of their overall businesses and finally turned to concentrate on their core activities. This means that the strategy does not always contribute to positive synergy from operating different lines of businesses. Lack of autonomy in decision making and specific competencies in each business line causes failures in a conglomerate. In this respect, each business line is not able to be responsive to its business environment and positive synergy can not be created to the overall benefit of the group of companies.

Although the two forms of synergy-creating strategies, *absolute integration (M&A) and diversification strategies*, are being questioned and lead to drawbacks and inefficiency of firms, alliance strategy seems to be more suitable for the current dynamic economic conditions. This is due to the major characteristics of a strategic alliance. Although the firm participates in the network and agrees to pursue common goals, it remains independent from the other partners. In addition, as the partner firms do not absolutely integrate to become the same organisation, the firm's size and level of bureaucracy level are not increased. Most importantly, the firms still fairly maintain right to determine suitable directions and strategies for their business. Strategic alliance then can generate positive synergy from co-operation but not deplete the entrepreneurial spirits of the partner firms. Hence, the synergy benefit from strategic alliances is increasingly important to business firms.

However, in greater detail, strategic alliances create not only synergy but also the complementary effect from a co-operation (Itami and Roehl, 1987). The complementary effects result from higher or full capacity utilisation of partner firms' resources. The resources in this respect are the financial resources and physical assets of the firms. The partner firms allow each other to use their idle capacity or physical resources, which is caused by asset underutilisation, cyclical and seasonal variation, and market fluctuations. In this context, the resources can be shared between the parties and the incremental benefits to the parties exist without additional expenses.

On the other hand, synergy focuses on intangible and invisible resources, instead of physical assets. The synergy happens when the resources are utilised simultaneously by several partner firms and at no additional cost. This is considered to be a free ride of simultaneous usage of invisible resources such as technology, reputation, trademarks, and information. Unlike physical and financial resources, the invisible ones can be used in more than one area at a time without reducing their value in other areas. To summarise, the synergy effect results from the simultaneous usage of invisible assets. In contrast, the complementary effect is created by utilising physical and financial resources available within the collaboration. Figure 2.6 illustrates synergy and the complementary effect from an alliance.

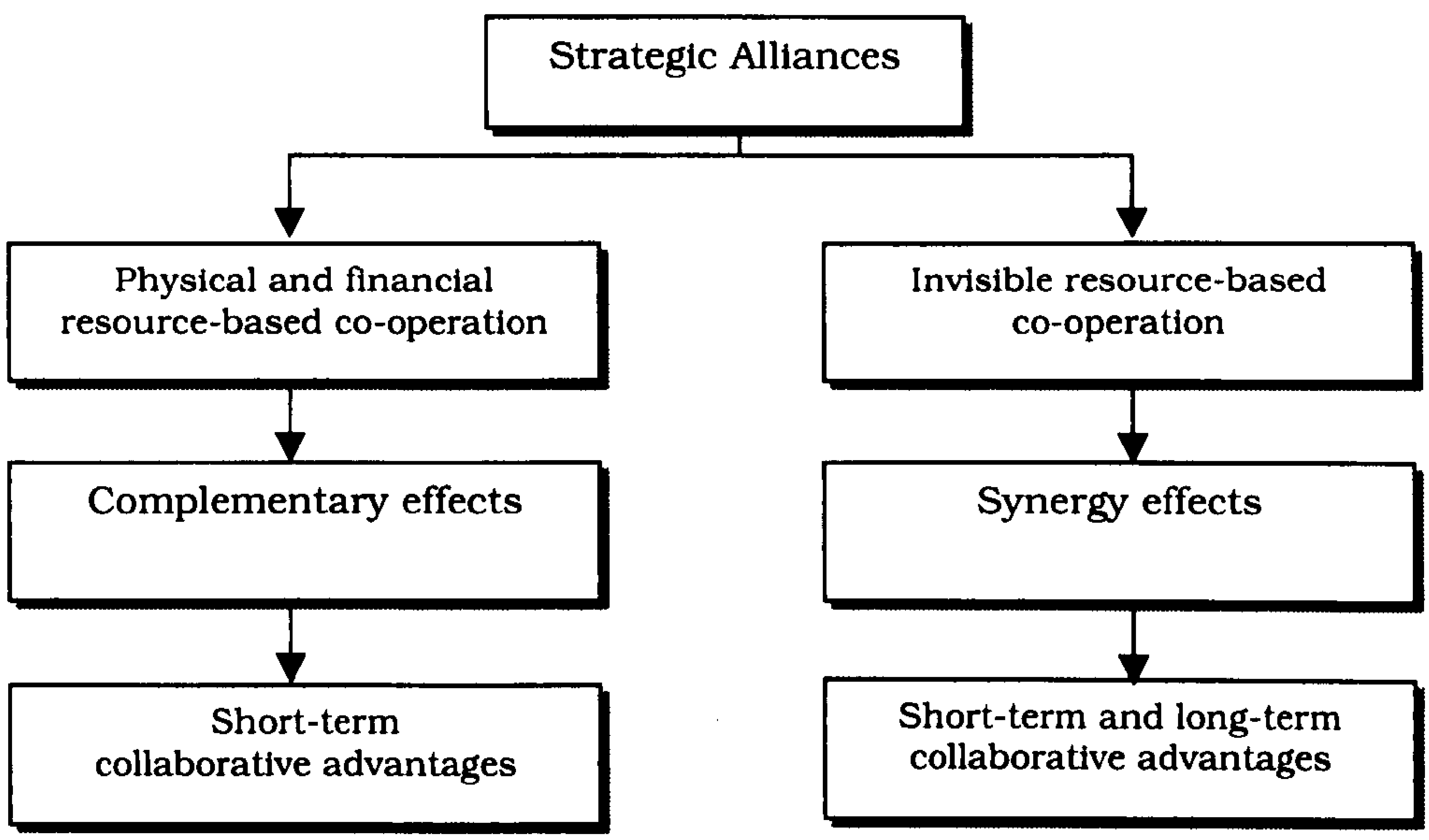


Figure 2.6 Synergy and Complementary effects from collaborative arrangements

From figure 2.6, there is a clear difference between synergy and complementary effect. As synergy is created by the simultaneous usage of invisible assets which are not easy to duplicate, it yields long term competitive advantages to partner firms. In contrast, physical and financial assets, which create complementary effect, can be quickly acquired and obtained by any firm. The complementary effect then has limited potential to maintain a competitive edge for the partner firms. Therefore, partner firms are increasingly aware of the positive synergy effect in strategic alliance development rather than the complementary effect.

2.8 Strategic Alliances versus Network Co-operation

Regarding the current dynamic and complex business environments, strategic alliances are challenged in terms of their effectiveness and responsiveness. In particular, a trend of internationalisation and globalisation seems to force a strategic partnership between two parties to become an intricate business relationship among major companies (Yoshino and Rangan, 1995). The simple relationship between partners is not likely to adequately facilitate firms struggling for their survival and success in the world's intense competition. Participating entities expect to achieve greater synergy from a wider range of each other's skills, resources, and competencies. Therefore, instead of forming only a single alliance, corporations turn their attention to focus more on multiple alliances and a web of collaborative arrangements (Dicken, 1992).

Multiple alliances, sometimes called an "octopus strategy", involves the simultaneous development of a trading relationship with several partners (Vyas, Shelburn, and Rogers, 1995). The alliances aim to achieve more business opportunities and diversify risks. In particular, in the wake of globalisation, companies must deal with an increasing variety of uncertainties, master many technologies simultaneously, and respond to the needs of more than one national market. Likewise, as the world market is becoming more fragmented, which demands a variety of specialisation of products and services, global multiple alliances seem to be a solution to cope with market niches and achieve economies of scales (Ohmae, 1989). Teece (1989) also insists that the complex interactions among a multiplicity of business units create innovative ideas and activities. Yet, not only innovation but also a diffusion of existing technologies and competencies can be generated by the co-operative network (Dunning, 1993). Moreover, a global network of co-operation is also believed to maintain flexibility and the entrepreneurial spirit of firms by enabling them to be involved with a multiplicity of technology, managerial systems, markets, and cultures (Yoshino and Rangan, 1995). Therefore, the establishment of multiple alliances across borders have proliferated and become imperative.

A paradigm of multiple strategic relationship development

According to Hakansson and Snehota (1995), the development of strategic trading relationships is concerned with three major aspects - activity links, resource ties, and actor bonds. First, the activity link involves a co-ordination of partners' commercial, administrative, and technical activities within a relationship. Second, the resource ties emphasise pooling the firm's assorted resources, including capital, human resources, competencies, and various physical resources. This is aimed at utilising resources more efficiently, as well as ensuring the availability of required critical resources within a co-operation. Third, the actor bonds focus on interrelationships between "actors" of all partner firms. The actor bonds include attention, interest, and obligation to each other within a collaboration.

The development of business relationships involves an expansion of co-operative scope in the three aspects as shown by figure 2.7. First, the linked activities become more varied and complicated patterns of co-operative activities. Second, the elements of resources linked up among business units are broader and of greater quantity. Third, the actor bonds will be much more complex. In this respect, the number of participants is increased and makes an actor bond become a web of actors.

	Company	**Relationship**	**Network**
Activities	Activity structure	Activity links	Activity pattern
Actors	Organisational Structure	Actors bonds	Web of actors
Resources	Resource collection	Resource ties	Resource constellation

Figure 2.7 the elements of development of business relationships

Source: Hakansson and Snehota (1995), *Developing Relationships in Business Networks*

Apart from the expected benefits of multiple alliance development, partner firms decide to expand their scope of co-operations owing to the effectiveness of their existing strategic alliances. Such a network of co-operation is not limited to only one or two business entities, but sometimes can be greater than four or five parties. This actually provides the participating firms with the possibility to benefit from greater synergy. However, this might also generate more conflicts and inflexibility.

As long-term benefits are likely to be derived from increased flexibility and from exposure to new possibilities, a more flexible form of global multiple alliances, called a **dynamic network**, exists. A dynamic network is a loose multiple co-operation among parties, which has the combined characteristics of something between a conventional strategic alliance and international subcontracting (Dicken, 1992). The distinctive feature of the dynamic network is that the major business functions such as marketing, production, product design and development, typically conducted within one organisation, are separately carried out by independent firms within a network (Miles and Snow, 1986). The structure of a dynamic network is illustrated by figure 2.8. According to figure 2.8, separate firms participating in the dynamic network are generally assembled and co-ordinated by a broker firm (Miles and Snow, 1986). In this way, the dynamic network usually achieves advantages from each participant's specialisation. Furthermore, the network can be reassembled or reshaped in order to deal with a drastically changing environment.

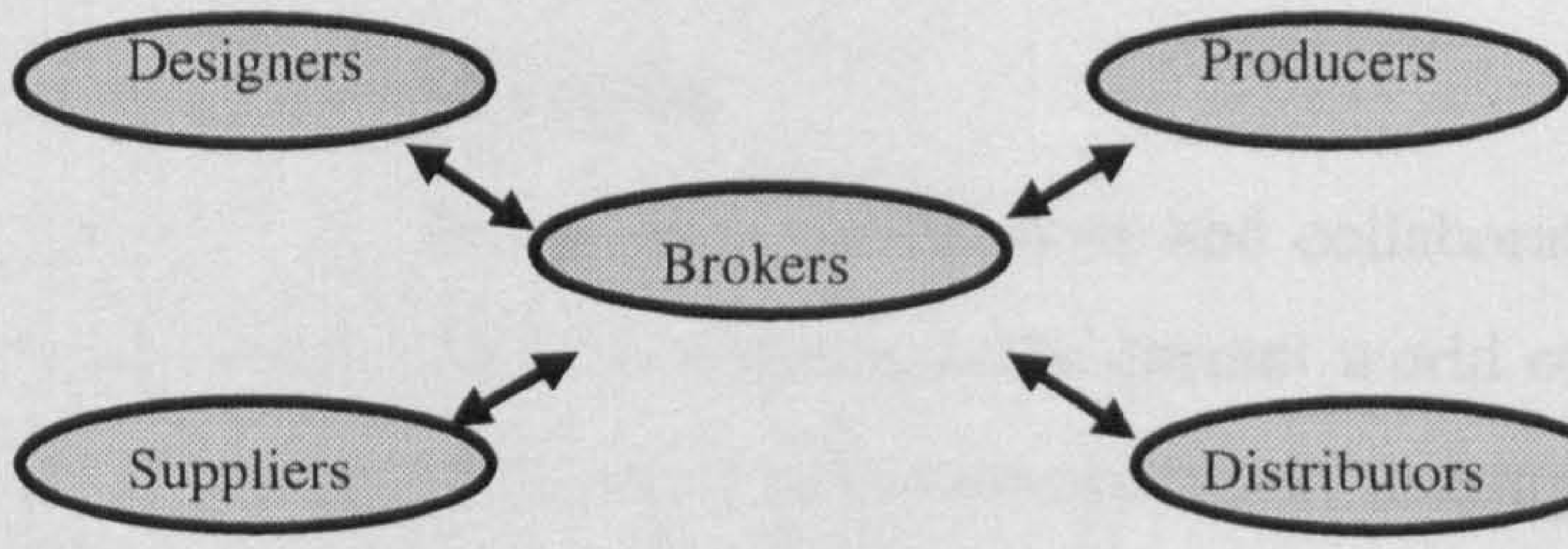


Figure 2.8 Dynamic Network
Source: Miles and Snow (1986), Organizations: new concepts for new forms, *California Management Review, Vol. XXVII.*

Therefore, global multiple alliances will soon become a predominant feature of the competitive landscape of the future. Global companies from various parts of the world are geared toward the same direction of international collaborative networks although there are some different features. North American collaborations generally neglect the political, cultural, organisational, and human issues in their partnerships. Such collaborations strictly emphasise financial terms in evaluating the performance of co-operations. In contrast, the co-operative networks of Asian companies pay greater attention to the political and cultural aspects. Their relationships, then, are more comfortable and sustainable. On the other hand, the European networks are in the middle between these two extreme relationships (Kanter, 1994).

Furthermore, the eminent role of global multiple alliances is being expanded into the regional level. The concept of collaborative networks across borders is increasingly recognised, for instance, the European union (EU), the Asian Pacific Economic Community (APEC), the North America Free Trade Area (NAFTA). Recently, a mutual economic relationship between five Eastern European countries, including Bulgaria, Czechoslovakia, Hungary, Poland, and Romania, has been established (Richter and Toth, 1994). These intra-regional economic networks are aimed at gaining a competitive edge and increasing bargaining power relative to other economic blocks in the world.

Although global alliance networks considerably benefit various sorts of business units, the strategy is not regarded as a panacea for all business ailments (Turner, 1995; Yoshino and Rangan, 1995). It can provide both prosperity and serious difficulties, depending upon the business environmental conditions as well as the contributions from all participating firms.

2.9 Summary & Conclusions

Over the past few years, international strategic alliances and collaborative advantage have been increasingly recognised in their importance to the current world of business. Strategic alliances are defined as various sorts of interfirm co-operation, ranging from a contractual agreement to an establishment of new business entities. Types of alliances are classified on four bases, consisting of the resource-based approach, relationship characteristic approach, participant characteristic approach, and behavioural characteristic approach. Four dimensions of strategic co-operation include continuity, complexity, symmetry, and informality. The dimensions help strategists to gain more insights into an analysis of business alliances. The complete cycle of strategic alliances is also presented as an alliance model. Eight steps of the alliance model comprise strategic reassessment, alliance motive identification, collecting information on potential partners, partner selection, alliance timing determination, alliance configuration establishment, alliance management, and alliance evaluation.

Strategic alliances are regarded as an imperative device to create synergy effects for the business. Co-operation between partners results in a combined performance of the integrated business which is greater than the sum of its parts. This trend of strategic co-operation will be developed to become a more advanced and complicated form of network co-operation. This co-operation will be more complex in terms of scope of activities, numbers of participants, and resources involved. Global network co-operation will become a weapon of multinational business firms for competing in the global market place. However, strategic co-operation is not a panacea for all business problems. It is also a two-edged sword which can offer both significant benefits and serious difficulties.

The next, third, chapter focuses entirely upon the formation stage of international strategic alliance. Various theories and empirical evidences are presented in order to clearly reveal three major issues of international alliance formation, which consist of motivation, criteria, and timing, as well as to develop relevant hypotheses.

Chapter 3 International Strategic Alliances: The Formation Stage

3.1 Introduction

This chapter focuses on theories and applications of the formation stage of international strategic alliances. The first part involves a spectrum of theoretical perspectives on international market entry modes and international strategic alliances. The major theories associated with cross-border co-operation, consisting of transaction cost theory, resource-based theory, and the eclectic paradigm of international production are also discussed in this section. The second part deals directly with the strategic motives of international alliance establishment. The details of defensive and offensive motives are discussed. The third part refers to the foreign partner selection process and criteria for international alliances. Major factors relevant to the issues are presented. The following part sheds light on strategic viewpoints associated with the timing of international alliance establishment. Eleven hypotheses in this research are also developed in this chapter.

3.2 Theoretical Perspectives of International Strategic Alliances

This part focuses on theories and frameworks associated with various forms of international co-operation. The discussions on various modes of foreign market entry are included. Further, the major theoretical considerations on international strategic alliances, including transaction cost analysis, resource-based framework, and the OLI theory of international productions are also presented in this section.

3.2.1 Modes of foreign market entry

Firms in the 1990s and next decade wish to engage in foreign market operations due to the incremental benefits and threats from globalisation forces. Foreign market operations help multinational firms to cope with various threats arising from globalisation. Also, these multinational enterprises (MNEs) are motivated by huge amount of income and higher rates of investment returns from foreign operations (Dunning, 1997). Therefore, MNEs strives to internationalise themselves and engage in foreign operations by using entry modes as follows.

3.2.1.1 Exporting: the first and most conventional mode is where firms export their goods or services across boundaries to new foreign markets. This is considered the way that can expand market abroad and limit risks involved in making direct investment in a foreign sales or production unit (Dunning, 1993). In this respect, the firms prefer to appoint local sales agents to distribute their products in foreign markets. The export decision process requires resolution of a number of fundamental questions, consisting of where foreign markets are, the best way to enter these markets, and the on-going management of their export operations (Beamish and others, 1994). Although the export strategies are able to limit risks from a significant investment in foreign markets, margins from exports are not high due to the purchase of services form local sales agents. Moreover, firms must take risks associated with the costs of ensuring that the distributors or agents do not operate in the best interests of the exporting firms (Dunning, 1993).

3.2.1.2 Wholly owned foreign subsidiary:

3.2.1.2.1 Marketing subsidiary: the second mode is the establishment of foreign sales or marketing subsidiaries. These value-adding activities consist of the production of goods or services in the ome countries and exporting them to host countries where firms' sales subsidiaries are situated. Here, an initial market entry takes place directly with MNEs' sales subsidiaries even though the firms may use the services of foreign brokers to search for marketing information in foreign markets. In this case, the goods or services are likely to be required to be adapted to the requirements of specific foreign markets. Also, an efficient after-sale usage, repair, and maintenance service is a key ingredient of the products' appeal (Dunning, 1993). Thus, efficient marketing activities from their own marketing subsidiaries, rather than from local agents, are imperative. Moreover, risks associated with the inefficient marketing services of local sales agents can also be avoided in this respect.

3.2.1.2.2 Foreign production subsidiary: this type of foreign market entry is the establishment of foreign production units. This case is likely to happen when firms' products or services are difficult to trade across boundaries. This also includes goods that are costly to transport and services that need the joint presence of producers and consumers such as medical consultancy and theatre performances (Dunning, 1993). Here, the production process is transferred from home countries to foreign countries in order to achieve resource advantages, to obtain cheaper labour costs in foreign countries, as well as to overcome tariff and non-tariff trade barriers (Radebaugh, 1998). This mode usually requires significant investment in human competencies, production infrastructure, and other physical assets. Often, the establishment of production subsidiaries replaces exporting and sales subsidiaries when foreign economic development proceeds, local supply capabilities improve, or greater incentives from host governments are offered (Dunning, 1993).

3.2.1.3 Traditional collaborative agreements:

This type of cross-border co-operation can be called buyer/seller relationships. These relationships primarily consist of licensing agreements, franchising, management contract, and turnkey contract agreements. Each of these agreements involves varying degrees of co-operation between parties to the relationships, together with a range by which rights and duties are assigned.

First, ***licensing agreements*** involve the transfer of rights to use a specific piece of proprietary technology, trademarks, or other advantages relevant to the production of a physical product (Dunning, 1993). Through this agreement, the licensor can generate additional profits and can have chances to exploit its technology in markets that are too small to justify a large investment, in over-protected markets, or as a means of testing and developing a new foreign market (Beamish and others, 1994). For the licensees, they can acquire technology more cheaply than internal development as well as creating new and advanced competencies by combining the acquired technology with their own expertise. Under this agreement, licensees have to make a usual payment for a license based on the value or quantity of the output produced by information and knowledge provided by the licensors. For example, an American computer firm allowed a South Korean company to produce and market small computer in South Korea through a licensing agreement (Matsuura, 1991).

Second, ***franchise agreements,*** similar to licensing agreements, refer to trading relationships in service sectors. Like licensing, the franchiser provides expertise, marketing, and information, together with detailed requirements and conditions with respect to quality control, necessary for producing services to customers. In return, the franchisee is obliged to provide franchiser with a lump sum payment plus a fee based on unit sales (Dunning, 1993). It is also usual that the franchiser can regularly inspect the franchisee's facilities in order to ensure the acceptable level of service quality offered. McDonalds, a global fast food chain, is a clear example of the international franchise agreement.

Third, ***management contracts*** involve transferring managerial know-how of contractors to contractees, who have the responsibility for undertaking the management services regarding the terms of contracts (Dunning, 1993). The expertise and know-how transfer often include corporate philosophies, major operational systems, personnel skills and other operational knowledge, which help the contractees accomplish the mission of their companies. For example, Ansett Transport Industries of Australia developed a contract to manage and operate Air New Zealand (Daniels and Radebaugh, 1998). Payment in this respect usually comprises a lump sum managerial fee plus an annual royalty fee based upon turnover, sales, or profits.

Finally, ***turnkey operations*** involve a contract for the construction of operating facilities that are transferred to the owners when they are ready to begin operations (Daniels and Radebaugh, 1998). Companies engaging in turnkey contract are normally industrial and construction firms. The majority of recipients are government and government-related agencies in developing countries (Beamish and others, 1994). For example, an interesting turnkey operation project is ABB and Companhia Brasileira de Projectos formed a joint venture to construct a turnkey dam for the government of Malaysia (Daniels and Radebaugh, 1998). Payment in a turnkey contract is normally made in stages based upon the percentage of completion of the project.

However, all the mentioned international agreements have only a one-way flow of knowledge between partners, rather than a mutual contribution (Dunning, 1993; Buckley and Casson, 1988). The relationships between active foreign partners, which involve intensive interactions between partners in order to create long-term and continuous mutual development, are discussed subsequently.

3.2.1.4 Cross-border value-added networks: this category includes cross-border strategic alliances and international joint ventures, which are long-term collaborations between partners across borders. Cross-border strategic alliances allow each participant to pursue its particular competence and accomplish its mutual goals. Unlike other traditional collaborative arrangements, all partners in international alliances actively participate in co-operative activities and offer significant contribution in order to promote continuous development between partnering firms and enhance long-term competitive advantages of the whole cross-border collaboration. Strategic alliances can accommodate a large amount of complexity while maximising the specialised competence of each partner and they provide effective use of human resources that would otherwise have to be accumulated, allocated, and maintained by a single organisation (Beamish and others, 1994). This approach is increasingly applied on a global basis, with countries participating in alliances, as multinational firms employ it as a major mode of foreign entry and co-ordinate product development, marketing, manufacturing, and sourcing activities around the world (Beamish and others, 1994). For example, Fuji Film and Xerox co-operate with each other to pool technologies, photographic equipment, office machinery and distribution networks (Matsuura, 1991).

International joint ventures are alliances formed by firms from two or more countries. They are equity-based co-operations and separate entities. International joint ventures do not have to be physically located outside home countries. For example, an auto plant in the United States co-owned by American and Japanese partners is an international joint venture where there are differences in nationalities, language, culture, and management practices between partners (Beamish and others, 1994).

3.2.1.5 Merger and acquisitions (M&A):

Mergers and acquisitions (M&A), often called "take over", have long played an important role in the growth firm. They are deployed as an important foreign market entry strategy by MNEs. M&A helps the firms expand operational scope and penetrate foreign markets. In general, "merger" means any transaction that forms one economic unit from two or more previous ones. Forms of merger activities consist of horizontal merger, vertical merger, and conglomerate merger (Copeland and Weston, 1992). A horizontal merger involves two firms operating in the same kind of business activity. A vertical merger involves two firms in different stages of production operations. A conglomerate merger involves firms engaged in unrelated types of business activity. An example of mergers is Mobil and Ward, where the retail operations and distribution networks of Ward can be an extension of the retail petroleum product marketing experience of Mobil.

On the other hand, "acquisition" means the purchase of any entities by an acquiring firm. Powerful and wealthy MNEs get access to foreign markets by acquiring smaller firms in foreign markets. For example, Merck (US) purchased half of a Japanese drug firm in order to enter the Japanese market (Matsuura, 1991). Both international mergers and acquisitions allow MNEs to cut the time and cost of market entry, particularly in some protected markets. When the overall economic prospects in foreign markets seem promising for long-term investment, MNEs are likely to merge with or acquire foreign firms so as to expand market scope and sieze additional market opportunities.

In conclusion, MNEs have to determine the appropriate mode for organising their foreign activities. Amongst the vast array of alternatives, MNEs can choose between exporting, non-equity contractual bases of co-operation, equity-based co-operative ventures, wholly-owned subsidiaries, or mergers and acquisitions. Each of these entry modes has different implications for the degree of control, the resource commitment, and the dissemination risks of foreign operations (Hill, Hwang, and Kim, 1990). The most appropriate mode will be chosen by each MNE, depending on the particular conditions of the firms.

3.2.2 Theoretical considerations

3.2.2.1 Transaction Cost Analysis (TCA)

In the world of business, the costs of carrying out various transactions within an organisation are significant concern, particularly international firms where all production and transaction activities are far more complicated. Multinational enterprises (MNEs) are obliged to engage in various cross-border transactions in order to achieve their expected ends. The processing and exchanging of these transactions cause substantial amounts of costs.

The core of transaction cost analyses deals with asset specificity, free-rider problems, and opportunism. The principal focus in this respect is on the choice of foreign market entry mode which minimises transaction costs (Contractor and Kundu, 1998). The transaction cost approach also implies that firms' proprietary assets are first developed in some national market and used only for particular firms (Caves, 1996). The decisions to begin and expand foreign investment and operations must deal with the problems associated with the various costs of the adaptation of these specific assets.

International firms wishing to engage in cross-border activities must choose an entry mode which eases the problems associated with asset specificity and the opportunistic behaviour of foreign partners. Often, cross-border alliances are likely to exist when the degree of asset specificity is low. The asset specificity refers to the degree that the assets and resources of particular firms are designed specifically for their own operations. If the degree of asset specificity is high, it is difficult to transfer the assets to be used in other firms without any adjustment costs. International alliances and joint ventures are likely to happen when the degree of asset specificity is low. Switching costs then are relatively low. In this case, the costs of co-operation with overseas partners seem to be lower than those of their own production activities.

Likewise, in the situations that MNEs can reduce transaction costs from opportunism of foreign partners, cross-border alliances might be preferred as a mode of foreign entry. Under competitive markets, such high pressures minimise the need for monitoring and enforcing foreign partners' behaviours (Hennart, 1989). This is because foreign partners are forced to perform efficiently by the intense conditions in the markets. Otherwise, the MNEs may easily switch to other foreign partners. As a consequence, the foreign firms' tendency to behave opportunistically is significantly reduced and the subsequent transaction costs in international collaboration are also decreased. Further, international collaboration tends to be developed to become equity alliances or joint ventures if the degree of asset specificity and opportunism is under control of the partner firms. This is to achieve great benefits from trust, sincerity, and synergy of cross-border co-operation.

In other words, Itaki (1985) states that the three categories of transaction costs consist of those inherent in community transactions, those inherent in oligopolistic or imperfect competition, and those originating from government transactions. Various forms of international collaboration between firms of different countries are considered to be efficient ways to handle the transaction cost problems. Inefficiency of operational performance in each particular country can be transferred to perform in better and more efficient locations. Further, the trading transactions across boundaries between foreign partners help tackle problems associated with protectionism and trade barriers from governments. This increases the efficiency in market competition and eliminates awkward conventional styles of international business practices. International collaboration is suitable and supported in this respect.

Kogut also (1988) asserts that MNEs firms choose how to create cross-border collaboration according to the criterion of minimising the sum of production and transaction costs. The production costs involve all costs associated with operations and production activities. Transaction costs of cross-border alliance establishment refer to the expenses incurred for writing and enforcing contracts, for deviating from optimal types of investment so as to increase dependence on a party or to stabilise a relationship (Kogut, 1988). In this case, MNEs have to decide that a specific task in foreign countries could be contracted out to foreign partners or it could be internalised and performed by the firms' own employees (Erramilli and Roa, 1993). If the MNEs realise the significant efficiency from partnering and collaborating with foreign firms, they are highly likely to develop cross-border co-operation to create operational efficiency in this case.

In practice, MNEs are likely to compare efficiency among the major modes of foreign market entry before making the final decision. In selecting between absolute integration and cross-border alliances, there should be a trade-off between the benefits of sharing risks and capital outlays and the costs of a loss of control associated with reduced or no ownership. The absolute integration, mergers and acquisitions, seems to be costly in terms of bureaucratic structures, inflexibility, high capital costs, and resource risks (Jacquemin, 1988). Although this way can increase ownership control and reduce the opportunism problems, international strategic alliances can also alleviate the degree of such problems by designing complex and strict written co-operative contracts, both equity and non-equity alliances. Likewise, the diversifying strategies of international firms also cause significant transaction costs of hierarchical control and intra-group communication. Moreover, the diseconomies of internal development also influence the foreign market entry decision

(Kogut, 1988). However, many scholars regard collaboration as the most cost-effective way of organising a portfolio of resources and capabilities across boundaries.

Furthermore, the transaction cost model also considers a trade off between the costs of entry mode control and the costs of resource commitment (Gatignon and Anderson, 1987). In the case of international joint ventures, the costs of entry mode control are likely to be high and the costs of resource commitment are to be relatively low. International alliances and joint ventures are likely to be chosen if foreign partners are proved trustworthy and do not need to be closely monitored. In this respect, MNEs do not require significant ownership to control foreign operations. They can limit risks associated with entry mode control. Moreover, the costs of resource commitment in international alliances are lower than those of merger and acquisitions. As a result, the overall transaction costs of international joint venture are low and such an entry mode is preferable.

However, the benefits of cross-border co-operation itself must be compared with the costs of the collaboration. Transaction cost theory predicts that firms establish international co-operation when the higher costs of the co-operation are offset by the benefits flowing from such an arrangement (Erramilli and Roa, 1993). The establishment of co-operative operations entails increased international organisation costs, including investments in legal, administrative, and various operating infrastructures (Davidson and McFetridge, 1985). Williamson (1985) further describes in more detail that the comparative transaction costs of the co-operation consist of the costs of running systems, the ex ante costs of negotiating a contract, and the ex post costs of monitoring the co-operative performance and enforcing the behaviours of the parties to the contract. The high overhead also increases through the difficulties in cross-border communication and control over international activities. Moreover, there are the other costs arising from the transfer of complex tacit knowledge among partners in cross-border alliances. It is evident that learning across organisational boundaries in international partnerships can be unintended and lack reciprocity. This unequal cross-flows of knowledge can also lead to the problems of "free riding" and "opportunism" among partners (Contractor and Kundu, 1998). In particular, communication problems in the case of cross-border alliances is more difficult, which results in higher overall costs. Therefore, MNEs have to ensure that the various benefits from international alliances and co-operation are greater than their potential costs.

Nevertheless, the concerns over the high transaction costs of cross-border integrated and co-operative activities may not always be true in the case of many service firms (Erramilli and Roa, 1993). In this case, ownership and joint investment in overseas manufacturing facilities entails considerable resource commitment and risks which give rise to huge costs. This may not be true for service firms where large-scale foreign investment in plants, machinery, and other physical assets is not required. The most critical asset of the service business is people which is relatively mobile. Switching costs, operational risks, and subsequent transaction costs of cross-border co-operative activities are then relatively low (Erramilli and Roa, 1993). Hence, in the case of cross-border business alliances in the service industry, some considerations on transaction costs associated with manufacturing and production activities should be treated carefully.

The international alliance between Korea's Sindo and Richo is an example in this respect (Adarkar and others, 1997). At first, Sindo was Richo's exclusive distributor in Korea. When the relationship went right and the Korean market grew, both firms needed to find a new way to make these international activities more efficient to cope with the increasing complexity of the market. Richo and Sindo then jointly developed their operational capabilities and built up low-cost manufacturing facilities in Korea. Also, they expanded their relationship to a 50-50 joint venture. This international joint venture significantly helped reduce transaction costs in terms of R&D expenses, operation and production expenses, and cross-border transportation costs. Economies of scales from large-scale production of the joint venture were also achieved. Moreover, the costs arising from opportunism and free-riding problems were sharply decreased.

3.2.2.2 Resource-Based Theory

Resource based theory describes firms as bundles of resources (Ghemawat, 1991) and their competitive advantage can be created through strategically deploying firms' unique mix of the rent-yielding resources (Dunning, 1993). The resources in this context are also defined as dedicated assets that cannot be re-deployed to alternative uses without costs (Hill, Hwang, and Kim, 1990). These resources could be either tangible resources such as plant and capital or intangible ones such as know-how and technology. According to this perspective, firms have resource dependency on other firms. In particular, MNEs seem to have more dependency on such resources scattered around the world. Thus, international co-operation across boundaries is perceived as an affordable and efficient way to transfer the required resources between foreign partners and make optimum use of such resources.

Regarding the resource-based viewpoints, international strategic alliances are expected to increase strategic resource flows across boundaries in order to achieve the greater mutual development of partners. In this case, above-normal returns are likely to be obtained and the significant competitive advantages of international firms are generally extended as this strategy results in the optimum utilisation of resources within cross-border co-operation. Roth (1995) also offers an extended version of the resource-based view that international firms may realise the importance of independent resource stocks in multiple countries. The resource stocks in this view are considered firm-specific competitiveness as they arise from historical development of a firm and have positive economic outcomes to the extent that they are valuable and non-substitutable (Dierickx and Cool, 1989). The accumulation of the independent resource stocks that are dispersed geographically offer significant advantages to international firms. In this case, the resource stocks are connected, integrated, and transferred across-boundaries through various forms of international collaboration, including international alliances and joint ventures. The sharing of innovation, collective learning, the transfer of information and skills across locations are interesting examples in this respect. (Collis, 1991).

Woodcock and others (1994) also assert that MNEs not having the resources and wishing to share the risks associated with having such resources are compelled to enter foreign markets through international collaboration and joint ventures, rather than wholly-owned modes. This is because of awkwardness and inflexibility in the absolute integration of resources across boundaries. The wholly-owned subsidiaries or mergers and acquisitions are more likely to resist innovations and the entrepreneurial spirits of acquired firms. As a consequence, the creation of new competitive advantages from combined international resources, which is the expected ultimate result in this respect, is not likely to exist. Moreover, the absolute integration strategies are considered to be highly risky, as a large amount of capital has to be invested. In case of failure or unsatisfactory performance, the costs of exit of the foreign entry strategies are also huge.

In particular, Baden-Fuller and Boschetti (1996) describes major steps of creating strategic alliances in the viewpoint of resource-based theory. In the case of multinational alliances, the "**resource-based alliance"** process is aimed at fulfilling the needs of resource interdependence between foreign partners and maximising overall value by integrating and combining their strategic resources across boundaries. In this case, the three suggested techniques in escalating the firms' value include: first, the transference of distinctive resources between firms from different countries; second, the elimination of inefficient resources and routines between the partners; third, the establishment of new capabilities within the cross-border collaboration to deal with the global competitive challenges. The process is accomplished through the following three steps, **preservation, absorption, and symbiosis of partner firms' resources** (See figure 3.1).

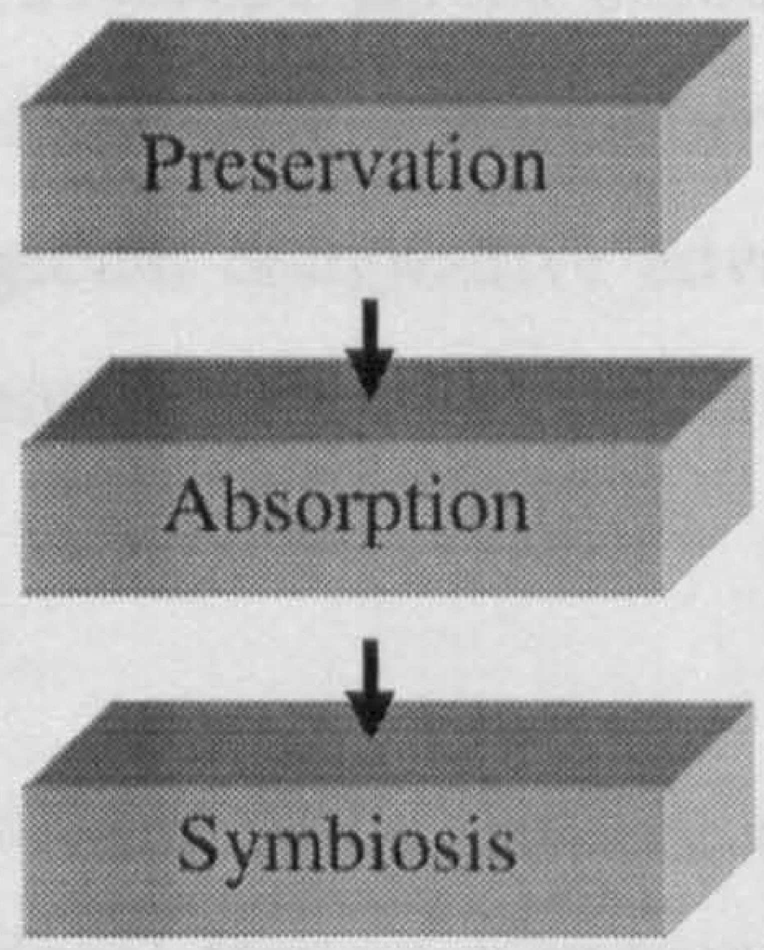


Figure 3.1 Resource Based Alliance Development Model

Source: Baden-Fuller and Boschetti, 1996

The model is applied to explain the international collaboration phenomena. First, "the preservation stage" means that each allied firm has to maintain and keep up its firm-specific advantage. In this stage, it is assumed that each firm in particular countries and regions around the world has its own unique and distinctive sets of strategic resources. Hart (1995) emphasises that competitive advantage can be sustained only if the capabilities creating the advantage are supported by the resources that are not easily duplicated by other rivals. International firms aiming to succeed in global and regional markets then wish to acquire, combine, and make optimum use of foreign firms' distinctive assets scattered around the world. This is considered an important incentive for international firms to establish strategic collaboration across boundaries. However, the firms still have to realise the risks of losing their "unique competitive advantages" and creating potential foreign rivals from sharing their core resources with international partners. Therefore, in this stage, international firms must be careful in transferring and pooling their resources with their foreign partners and attempt to preserve their own unique and distinctive assets.

Second, international firms start to absorb assets between partners through the establishment of trust, familiarity, cohesion, and satisfaction between foreign partners. In this stage, the international accumulation of tangible and intangible assets is considered a principal task of co-ordination among business units located in different countries (Roth, 1995). Often, such strategic resources are usually tacit or socially complex (Teece, 1987). It is difficult to acquire or learn the tacit skills from other firms. Thus, the arrangement of international joint ventures or other forms of cross-border co-operation are created to help absorb these strategic assets from foreign capable partners. In this step, strategic assets of foreign partners are exchanged, transferred, and absorbed across border in order to facilitate international trading activities and improve performance. Foreign firms in the collaboration begin to learn and develop their global and regional competitive advantage from the distinctive strategic assets of each other. The potential to enter particular markets of host countries also significantly increases.

Third, symbiosis is associated closely with creating mutually beneficial capabilities and resources. In this phase, international firms are encouraged to integrate their resources and create new sources of competitive advantages for the allied firms. The core ideas in this stage are to strengthen internationally competitive statuses of partners firms through co-operation across boundaries. Forming new competitive advantages by integrating assets from foreign firms of particular countries are also highly required in this stage. Moreover, closer integration in this stage helps discard routines, resources, and competencies, which are no longer efficient in the current competitive situation and result in long-term international competitiveness. However, there is some concern over international firms' commitment to their own strategic resources, which leads to difficulties in acquiring new resources and capabilities from their foreign partners (Hart, 1995). This may also lead to technological discontinuities and obsolete competency in the long term. Thus, in this stage, foreign firms should not to focus too heavily on their own strategic assets but consider the most efficient way to combine and create new international competitiveness.

To summarise, it is clear that international alliances or joint ventures provide cross-border access to foreign partners' resources. From the resource-based perspectives, international firms tend to use international alliances to rectify a resource deficiency. In this case, the firms have to ensure that they can find willing and suitable foreign partners having appropriate assets to share (Hill, Hwang, and Kim, 1990). They also have to be willing to risk providing their foreign partners with access to their own strategic resources. Thus, the critical consideration here is seeking suitable foreign partners to provide such access and establishing cross-border co-operation based heavily on trust (Woodcock and others, 1994). Otherwise, the collaboration may lead to negative impacts, instead of optimum benefits from cross-border resource transfer.

The example explained by this resource-based theory is the international alliance between Toshiba (Japanese) and IBM (US) (Gomes-Casseres, 1997). In this case, IBM and Toshiba wished to share their strategic resources in terms of advanced technology in the computing industry with each other. IBM, the world's largest computer producer, needed to gain technologies in the micro computer segment which it lacked. Toshiba also wished to learn sophisticated computer production technologies from IBM. In 1985, the two companies first collaborated to develop joint R&D alliance. This international alliance can be described by the "resource-based alliance" as follows. First, both firms, IBM and Toshiba, showed their strengths and strategic assets which are critical for the success of the two firms in international markets. Both of them realised their resource dependency on each other's assets and wish to combine and make optimum use of such resources. Second, both international firms started to absorb and transfer each other's expertise through the establishment of a joint R&D alliance. Next, the alliance moved on to interact more closely and integrate their competencies in order to create mutually beneficial capabilities and construct new sources of global competitive advantages for both firms. In this stage, Toshiba and IBM established a 50/50 joint venture headquartered in Japan after the joint R&D alliance was proved successful.

3.2.2.3 The Eclectic Paradigm of International Production Theory

The main emphasis of the eclectic paradigm is on analysing an integrated approach to international economic involvement and international production activities which is based upon three advantages consisting of owner-specific advantages (O), location-specific advantages (L), and internalisation (I) advantages (Dunning, 1988). Dunning (1988) also defines international production activities as *"value adding activities owned or controlled, and organised by a firm (or a group of firms) outside its (or their) national boundaries"*. In this respect, it is suggested that engaging in foreign production is more profitable and more strategically worthwhile than engaging only in domestic operations. Likewise, the international production theory also implies that cross-border alliances probably offer additional significant benefits to firms engaging only in domestic co-operation (Dunning, 1993).

The first element of the eclectic paradigm is ownership-specific (O) advantages or firm-specific advantages, which include both proprietary know-how (unique assets) and transactional advantages. In this context, the advantages focus on corporate capabilities to develop optimal internal co-ordination and control mechanisms, taking into account their costs and benefits (Hennart, 1991). This advantage is non-location bound which can be exploited and transferred globally and lead to benefits of scale and scope of national differences.

Second, locational (L) advantages or country-specific advantages refer to benefits associated with locating certain activities in particular countries. These benefits may arise from (a) structural market imperfections such as government regulations (b) the potential to economise on transaction costs by reducing risks and to benefit from local opportunities (Rugman, 1986). Also, the L advantage is only of use in a local sense. This advantage is also utilised in a leveraged way to contribute to the development of new O advantages (Rugman and Verbeke, 1992). Third, internalisation (I) advantages involve the relative benefits associated with different entry modes when serving foreign markets (Rugman, 1981, Hennart, 1988; Teece, 1985). The internalisation of a firm's O advantages involves maximising its organisational benefits after remunerating all the factors of production, R&D, marketing, and management.

The OLI advantage model of the eclectic theory employed to explain international co-operation phenomena is shown in figure 3.2. The origin of international strategic alliance establishment is an interaction between the OLI advantages and three external driving forces. The three major forces affecting the ways that international firms engage in international activities and exploit their OLI advantages are as follows. First, innovation and dynamic changes in the global business environment force firms to cope with the development of new technologies and organisational capabilities, which is resource consuming. These innovator enterprises, then, wish to commercialise such an innovative investment as quickly as possible due to the fast erosion of innovative monopoly position and the need to promote common standard (Dunning, 1993). Second, the convergence of technologies and various competencies encourages firms to combine technologies across a variety of disciplines (Dunning, 1993). MNEs currently have to encounter and master both different and complementary technologies, particularly when they are operating businesses globally. Finally, the globalisation of business causes significant instability, variability, and asymmetry in world-wide business conditions. This motivates MNEs to employ strategic collaboration as a tool in diversifying risks, strengthening the firm's robustness, and reducing asymmetry among the firms in various areas of the world.

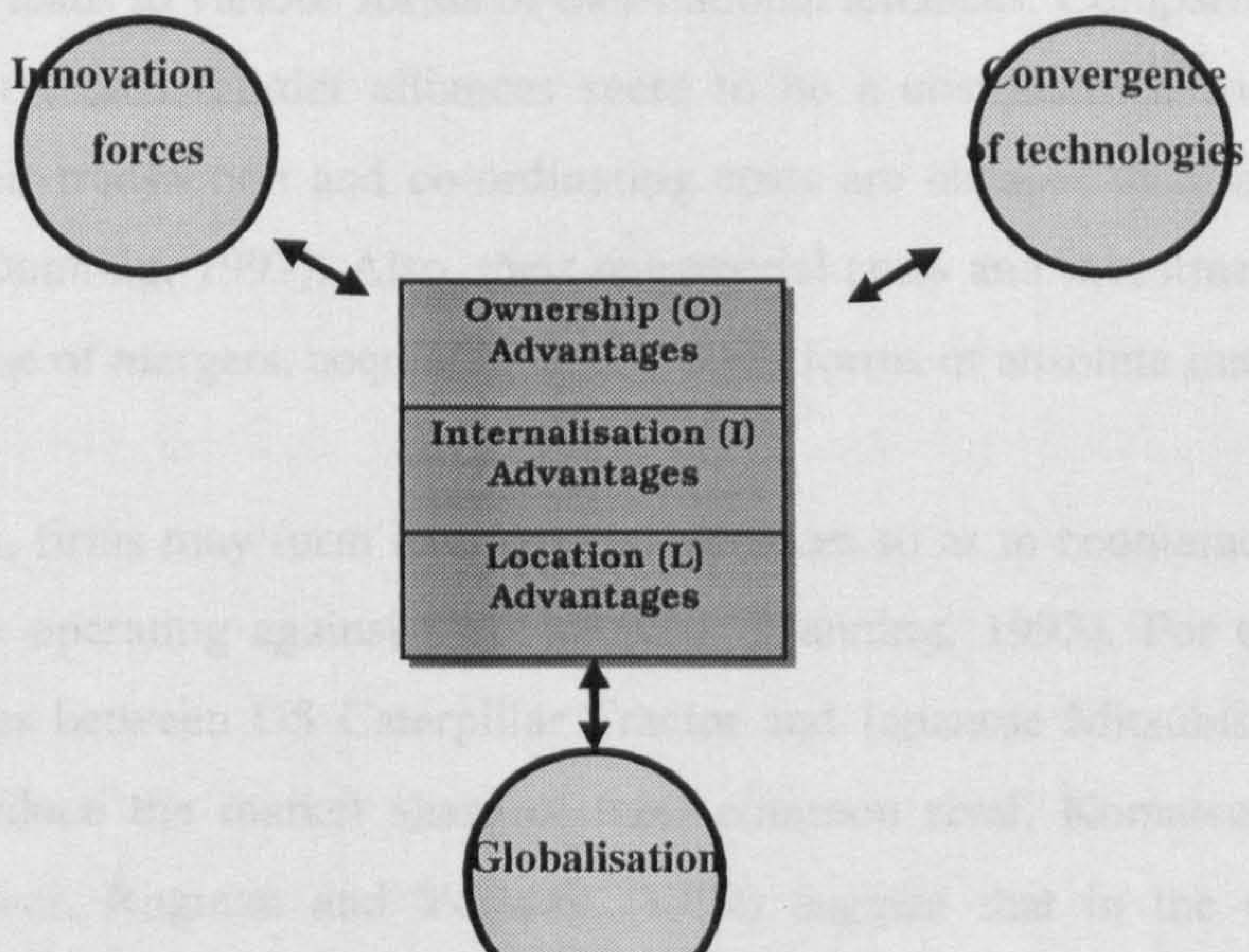


Figure 3.2 The OLI advantage diagram of Eclectic Approach
Source: Dunning (1993), *The globalization of business: The challenge of the 1990s.*

Apart from external globalising forces, international firms have to assess their readiness to engage in global co-operative strategies in terms of capacities and competencies (O advantages). Dunning (1997) asserts that O advantages stem from a firm's ability to externalise risk, to manage successfully a complex portfolio of core assets and value-creating disciplines, and to internalise the skills and learning experiences of other organisations. These advantages are believed to better enable firms to engage in transborder activities and to be much influenced by modes of foreign market entry.

The second phase is to consider the extent to which the firm perceives it to be the best way to increase value to the firm's O advantage. In this respect, the firms aim to select the best way to enter foreign markets (I advantages) so as to most efficiently exploit their competencies. The relative benefits associated with different global market entry modes are taken into consideration (Buckley and Casson, 1975; Rugman, 1981). Dunning (1993; 1997) suggests that firms may choose to collaborate with foreign partners so as to exploit better O advantages resulting from the economies of large scale production, specialisation and, rationalisation. Cross-border alliances are likely to exist in this case where differences in resources and capabilities of partners may be fruitfully exploited. Further, additional economies of scale may arise from the sourcing of components and marketing of the end products. This leads to various forms of transnational alliances. Compared with other modes of foreign entry, cross-border alliances seem to be a cost-justified tool to enter foreign markets as their transaction and co-ordinating costs are cheaper than arm's length market transactions (Dunning, 1997). Also, their managerial costs and investment risks seem to be lower than those of mergers, acquisitions, and other forms of absolute integration.

In other words, firms may form international alliances so as to counteract the O advantages of competitors operating against their interests (Dunning, 1993). For example, the cross-border alliances between US Caterpillar Tractor and Japanese Mitsubishi in order to fight against and reduce the market share of their common rival, Komatsu (Hout and others, 1986). Moreover, Rugman and Verbeke (1992) suggest that in the triad of worldwide learning and national responsiveness, MNEs cannot solely rely on their specific advantages developed in their home countries. New "O" advantages also need to be developed in each country where specific needs exist for national responsiveness. In this case, MNEs have to adapt themselves to local circumstances and are likely to forego the benefits of co-ordinating with local partners in order to better tailor their activities to host country conditions. This adaptation and development process leads to the enhancement of firms' O advantages and results in improved competitive positions. The firms in this respect then combine their own resources with those of their foreign partners so as to develop new skills, to gain access to new and complementary technologies, to speed up innovatory or learning process, and to upgrade the efficiency of particular activities (Dunning, 1997).

The next consideration involves locations or countries in which the firms tend to exercise international strategic alliances (L advantages). The important variables which ought to be taken into account in selecting the foreign locations include natural resources, international transport and communication costs, investment incentives and barriers, infrastructure provisions, economic and political climates, cultural differences, and structural market imperfections (Dunning, 1988, 1993; Rugman, Donald, and Laurence, 1985). In this respect, the O advantages should also complement the L advantages of the countries involved, such as local marketing infrastructure and protected government markets. This helps promote the optimum benefits in the host countries chosen. Dunning (1993) also notes that the L advantages also play interesting roles in developing cross-border alliances. International alliances intended to promote efficiency-seeking production or advance the global competitive advantages of partner firms are likely to be concluded between firms in advanced industrial countries. In other words, cross-border collaboration expected to gain entry to foreign markets or to exploit cheaper natural resources should be concluded between firms in developing countries. After thoroughly considering all factors, the firms identify the countries in which they should establish cross-border strategic co-operation.

The international alliance between Japanese JVC and Gradiente, Brazil's leading electronics firm, is an example in this case (Adarkar and others, 1997). These two companies collaborated with each other to manufacture and market products under the brand names of JVC and Gradiente. The alliance helped JVC to build volume rapidly in the Brazil market. At the same time, Gradiente became a profitable company with revenues of over $1 billion. The alliance is explained by the OLI paradigm of international production theory as follows. First, JVC realised that it should develop itself in international markets in order to cope with various uncertainties and risks in global competition. The company also realised that "O" advantages, proprietary know-how and capabilities, were sufficient and could be developed and exploited globally to achieve the benefits of scale and scope of international markets. Second, JVC had to consider to best way to engage in international activities and to exploit its O advantages in foreign markets. In practice, the firm must take into account specific factors of particular prospective countries in which it expected to participate. JVC wished to take part in emerging economies. In this case, Brazil was chosen due to its high market potential (L advantages). The firm then had to choose the most appropriate way to enter the markets (I advantages). Exporting was a poor option due to tariff barriers and restrictive regulations. Subsidiary establishments or mergers and acquisitions, which require huge investment, seemed too risky for the emerging countries. Thus, a cross-border alliance with a capable local firm might be the best option in this case as the firm can utilise the local resources of its partner and share benefits.

To summarise, as all the theories offer different but complementary perspectives to each other. No particular theoretical perspectives can provide all the answers to the cross-border alliance phenomena. The explanations from each theory shed light on the creation of cross-border alliances in general and help us to gain clearer pictures associated with foreign entry modes.

3.3 Motives for International Strategic Alliances

This section is centered on the motives driving enterprises to form cross-border alliances. The reasons that firms, which differ in size, operational scope, and nationality, tend to engage in international alliances are the major interest.

As a matter of fact, a paradigm of growth strategies is summarised as follows. First, *the internal growth* is the accumulation of important resources within an organisation, in order to sustain its future expansion. Second, *external growth, **known as merger & acquisition,*** emphasises its expansion by acquiring other high potential companies. Third, *the development of co-operative arrangements, **including alliances**,* with other powerful partners is aimed at gaining competitive and collaborative advantages for the organisations (Walter, Peters, and Dess, 1994).

However, there is likelihood that *internal growth* is extremely restricted in its deployment during the 1990s, owing to intense competition. Moreover, due to rapid changes in the external environment, most businesses are not able to cope with the rapidly changing trends by themselves. On the other hand, *external growth* normally causes businesses to lose their efficiency, flexibility, adaptability, and innovation after integrating their organisations

(Lahnstein, 1996). The current generation of business leaders is still suffering from financial problems left by their predecesors' merger and acquisition strategies (Gosper, 1996). Another major disadvantage of external growth is the substantial increase of transaction costs owing to the larger size of the organisation. Therefore, *the strategic alliance*, the last type of growth, is currently regarded as the best growth strategy with reference to its benefits and tolerable risks (Ohmae, 1989).

As analysed by "two-factor theory", the two approaches of international alliance motives are illustrated in figure 3.3.

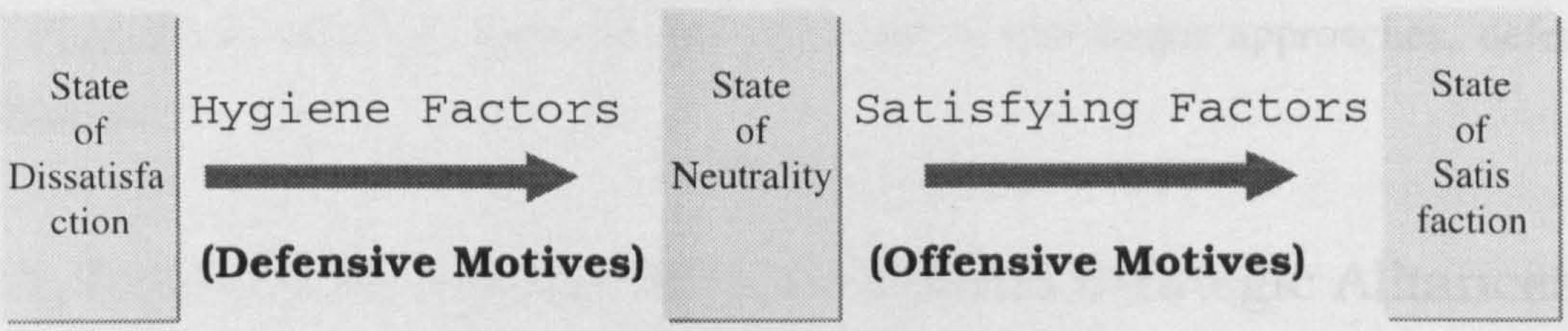


Figure 3.3 the two-factor model

From figure 3.3, hygiene or maintenance factors can only reduce dissatisfaction but not arouse satisfaction. The hygiene factors are usually used to prevent dissatisfaction in an organisation (Jabes, 1978). To identify underlying needs of international alliances, the hygiene factors urge a firm to establish cross-border co-operation in order to reduce the degree of anxiety and instability of operations arising from intensive global competition. Various difficulties and uncertainties in the international business environment encourage firms to develop inter-organisation links. In this respect, cross-border strategic alliances are employed to prevent and ease potential and existing business difficulties and uncertainties. These motives are likely to be **preventive and defensive** ones.

On the other hand, satisfying factors are used to increase satisfaction and stimulate a firm to exert more effort to perform better and achieve prosperity. To respond to these needs, effective expansion strategies, including cross-border strategic alliances, which are employed to achieve greater business opportunities and potential resources are desirable. The satisfying factors also promote technological advancement, enhance competencies, expand market boundaries, and improve firms' overall competitive positions. These factors are regarded as **offensive motives.**

From all the discussions, it is evident that the overall international alliance motives can be divided into two major categories, defensive and offensive motives. The inter-firm relationships are stimulated by offensive activities aiming at exploiting new opportunities and by defensive moves that safeguard firm's strategically important aspects (Ulf E. and Ulf J., 1996). In this respect, cross-border strategic alliances aim to maintain stability and reduce tensions and threats from international market and competitive forces. Also, the alliances can be an offensive strategy that attacks rivals, extends opportunities and capabilities of a firm, and reshapes its environment (Hakansson and Johanson, 1988). Therefore, the motives of international strategic alliances are discussed in two major approaches, defensive and offensive.

3.3.1 Defensive Motives of International Strategic Alliances

The defensive motives aim to ease threats arising from uncertainty in the domestic and global environment. A widespread incidence of collaborative partnerships is stimulated by globalisation, changes in patterns of industrial organisations, intense competition, risks, and environment uncertainties (Stile, 1995; Fletcher, 1994). The defensive motives can be categorised as **market and resource-oriented**. The market-oriented, defensive motives involve using cross-border alliances to maintain firms' competitive positions in the market, which are threatened by competitive and demand uncertainties. Regarding the resource-oriented defensive motives, international alliances are aimed at acquiring foreign partners' resources in order to defend themselves and stabilise their operations. The details are discussed as follows.

3.3.1.1 Market-defensive motives with respect to dealing with competitive uncertainties

The competitive uncertainty, which arises from rapid changes in various competitive conditions in international business environment, motivates firms to enter into international strategic alliances. Due to intensified competition in an industry, a firm requires rapid and flexible responses from transnational alliances in order to cope with such competition (Baranson, 1990). Dull, Mohn, and Noren (1995) also state that companies employ alliances to reshape industry structure in order to ease competitive pressures in the market. In addition, the horizontal relationships in alliances are believed to help co-ordinate competing firms that constitute threats to the market (Ulf E. and Ulf J., 1996).

International strategic alliance is also deployed to reduce competitive pressures in the market. As noted by Burgers, Hill, and Kim (1993), reducing competition within the industry is a motive for entering into alliances. According to Porter (1985), the greater number of industry participants means the higher degree of intensified competitions. Drago (1997) further insists that competitive uncertainty pushes firms to enter into alliances in order to limit interdependence by limiting the number of competitors. In general, strategic alliances not only reduce the number of existing competitors but also pre-empt the rise of new competitors by controlling firms' market access (Lei, 1993). This relieves the degree of competition by lessening competitive interdependence, cutting the number of existing and potential competitors, and countering the aggressive strategies of industry participants.

Entry by new and potential entities, particularly those supported by their governments, forces adopting strategic alliances (Harrigan, 1987). Hamel and Prahalad (1993) also suggest that the firms must not only assess the current tactical strategies of existing rivals but also evaluate the resolution, stamina, and inventiveness of potential competitors. This increases competitive uncertainty for participants in the existing industry also creates incentives for cross- or within-industry alliances to survive in such conditions. In addition, cross-industry and –border alliances are also driven by the strong pressures of substitutions of products and services from firms performing in different industries.

Hostile and aggressive strategies deployed in each strategic group of the industry heighten the degree of competition and competitive uncertainties. Moreover, the closeness of firms in each strategic group, in terms of strategies and target markets, within the industry also develop the intense competition due to increased substitute ability among industry participants (Porter, 1985).

Further, according to the eclectic theory of international production, the globalisation of business is also one of the factors encouraging the development of international business alliances. The globalising forces cause intense competition in the international markets, which lead to instability, variability, and asymmetry in world-wide business conditions.

Cross-border collaborations then are aimed at coping with globalising forces, reducing competitive asymmetry among foreign firms, and surviving the intense international competition.

O'Brien and Tullis (1989) also identify the accentuation of a series of global competition trends that force firms to adopt alliances. More deregulated markets, non-tariff barriers, emergence of various regional trade blocks, rapid political changes, and reorganisation of multinational enterprises intensify global competition and make firms difficult to survive in the market (O'Brien and Tullis, 1989). Cross-border alliance then plays a significant role in developing strategic readiness of a local firm in order to confront intensified competition in its home market, which may achieve by forming coalitions with original competitors and sustaining its collective competitive positions (Ulf E. and Ulf J., 1996). Also, the saturation of major markets of the world, which threaten market positions of firms, is evidently alleviated by cross-border strategic alliances (Harrigan, 1987). In this respect, there is a significant possibility of the foreign invasion into the industry which increases competitive uncertainties to the firms. International collaboration with foreign rivals seems to be a suitable device to turn competitors into business partners.

Further, regarding the transaction cost analysis, international collaboration can be employed in order to reduce transaction costs arising from aggressive and opportunistic behaviours of foreign firms. In this respect, cross-border co-operation aims to reduce the degree of competition as well as to establishing the mutual understanding, trust, and benefits between partners. This can reduce the overall operational costs and help international firms cope more efficiently with competitive uncertainties in the international markets.

According to the above discussions, it is evident that international strategic alliances are employed as a device to deal with both domestic and foreign competitive uncertainty and help firms to maintain their market positions. Therefore, the first hypothesis may be proposed as follows:

The market-defensive motives in respect of dealing with competitive uncertainties stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.

3.3.1.2 Market-defensive motives with respect to dealing with demand uncertainties

The demand uncertainty arises from unpredictable changes in demand conditions and consumer purchasing patterns. According to Burger, Hill, and Kim (1993), the demand uncertainty motivates firms to enter into alliances in order to cope with such uncertainty. In order to survive in the uncertain market, firms must be able to adapt quickly to changing demand conditions. However, various constraints within business firms refrain them from internally developing their strategic capabilities to deal with such demand uncertainty (Bartlett and Ghoshal, 1989; Hannah and Freeman, 1989). The firms then are encouraged to enter into cross-border alliances with foreign partners that already possess the capabilities to handle the uncertainties. In particular, as such uncertainties significantly result from the dramatic changes in global business environment and the dynamic alterations in technology in the international markets, the development of transnational co-operation with capable foreign partners seems to help firms to deal efficiently with the demand uncertainties. Also, in the case of the borderless industries, the degree of demand uncertainty is multiplied due to uncontrollable factors from abroad. Alliances with foreign partners who are in possession of sophisticated skills are of vital concern in order to reduce the uncertainty and maintain its status in the market.

Influences of consumers' taste, preference, and attitude changes are paramount. Ohmae (1989) notes that the convergence of consumer preferences across the world is considered a main motive of adopting international alliances. The greater the fragmentation of world markets, the greater the intensity of international networks is required. Baranson (1990) also notes that the proliferation of segmented market demands encourages the needs to engage in alliances. To survive in such markets, transnational corporations encounter the needs to adjust product designs, production bases, and marketing strategies due to complicated changes in global market demands (Baranson, 1990).

Often, cross-border alliances are established to reduce and share risks in the market, which arise from technology variations and changes. Due to drastic variations in technology, international technological sharing and co-operations seem to be a requirement for surviving in foreign markets (Baranson, 1990). As technological changes and innovation considerably affect market demand conditions, partnering with innovative parties who possess cutting-edge technology is a solution for coping with such variations. The risks of undertaking research and development projects in order to respond to drastic changes in customer preferences also make strategic alliances imperative (Obrien and Tullis, 1989). Further, in order to reduce risks from technological variations, international strategic collaboration helps maintain technological standards in the industry and reduce needs to quickly develop innovation for the market.

Likewise, with regard to the eclectic paradigm of international production, the international alliance development is significantly influenced by major external forces. The major forces involve the innovation and dynamic changes in the global business environment as well as the convergence of technologies. The forces cause significant changes and uncertainties in market demand conditions in terms of consumer behaviours and purchasing patterns. Cross-border co-operation then is employed so as to deal with such uncertainties and maintain their competitive position in the markets. Moreover, market demand conditions are often manipulated by regulation uncertainties. Economic deregulation and protectionism in many industries around the world foster cross-national alliances as it eases the pressures of unpredictable changes of market demand.

The demand uncertainty is thus recognised as a strong pressure for firms to be involved in cross-border alliances in order to ease threats from the uncertainties and survive in the market. Therefore, the second hypothesis may be proposed as follows:
The market-defensive motives with respect of dealing with demand uncertainties stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.

3.3.1.3 Resource-defensive motives

As strategic alliances entail the pooling of resources by the co-operating firms (Varadarajan and Cunningham, 1995), the major motives of the alliances are centred on acquiring and utilising resources and assets from partners. In greater detail, the resource-defensive motives focus on **acquiring and utilising resources in order to continue firms' operations and stabilise their competitive status**. According to Drago (1997), alliances aim to reduce "internal organisational uncertainty" which is related to *scarcity of resources and* *operational uncertainty*. The problem of scarcity of strategic resources can be solved by obtaining and sharing resources with other parties. In particular, in the world of resource scarcity, cross-border sharing firms' resources with other foreign entities by developing international alliances seems to be the efficient and practical way to respond to the firms' real need. Further, the operational uncertainty is caused by a lack of information, skills and knowledge of necessary actions required to remain working as an organisation (Drago, 1997). Firms then can join international alliances to reduce operational uncertainty through acquiring the knowledge base and competencies of their competent foreign partners so as to meet competitive requirements and stabilise themselves in the intense competition.

In this context, international firms need to ascertain flows of resources and knowledge from external sources, which are necessary to continue and stabilise their operation. Accordingly, cross-border alliances with major resource providers or suppliers become imperative to smoothen their operations and survive the world of scarcity. It is evident that alliances with major suppliers can stabilise upstream flows of businesses (Lei, 1993). With regard to the resource-based perspectives, international firms have resource dependency on other foreign firms. The establishment of international co-operation across boundaries is aimed at ensuring strategic resource flow across boundaries. This is to stabilise operations and performance of international firms as well as to reduce significant uncertainties in international business environment (Res-Defensive).

Further, predominant reasons for procurement partnerships include the avoidance of capital to be invested to develop products internally, and access to specialised talent of suppliers (Graham, Daugherty, and Dudley, 1994). Strategic alliances are also regarded as a way to eliminate waste in the supply chain and create an integrated supply chain in order to support firms' stable operations (Cottrill, 1997). Likewise, the global supply pressures on business competitiveness cause firms to consider developing foreign interfirm alliances. In order to reduce financial risks, firms also increasingly form cross-border alliances for the purposes of obtaining adequate resources to meet and survive truly global competition (Brouthers, Brouthers, and Wilkinson, 1995). Partnering with wealthy foreign firms also helps lock up steady cross-border inflows of necessary resources required for international firms' operations.

Moreover, protecting firms' interest in home countries involves managing and controlling the existing resource flow by maintaining established vertical relationships in strategic alliances (Ulf and Ulf , 1996). When external and environmental uncertainty increases, a firm is expected to intensify co-operation in order to decrease internal organisational uncertainty arising from lacking necessary existing resource flows (Cook, 1977; Thorelli, 1986). In particular, in the case of great uncertainties from uncontrollable and unpredictable factors outside countries, international collaboration with major foreign suppliers is increasingly important in order to obtain stable international procurement agreements. In this respect, an important motive for engaging in alliances is to guarantee quality of goods or services supplied by partners for stabilising their operations (Graham, Daugherty, and Dudley, 1994). Alliance development is also aimed at maintaining procurement efficiency in terms of delivery times, gaining a sense of order and control, and reducing potential strategic vulnerability of firms (Graham, Daugherty, and Dudley, 1994). Moreover, alliance co-operation helps gain trust and integrity from partners in providing firms with necessary products/services and also leads to long-term procurement relationships characterised by mutual trust, interdependence, and mutual benefits (Biemans and Maryse, 1995; Stuart and McCutcheon, 1995).

In order to ease organisational uncertainty and keep the business steadily running, firms need to develop cross-border alliances, particularly in the case of operating in international industries. International alliances help firms to obtain required resources across boundaries for continuing their operations and maintaining their competitive status. Therefore, the third hypothesis may be proposed as follows:
The resource-defensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.

3.3.2 Offensive Motives of International Strategic Alliances

The offensive motives are also categorised as **market and resource-oriented** where the former focuses heavily on marketing benefits and expansion and the latter emphasises exchanging and acquiring strategic resources between partners.

3.3.2.1 Market-Offensive Motives

The market-offensive motives play a critical role in strategic alliance formation. The motives focus on **achieving market benefits and expansion via development and enhancement of firms' capabilities**. The incremental market opportunities, both domestic and abroad, through the contributions of foreign partners are recognized as an important driver of cross-border alliances (Dull, Mohn, and Noren, 1995). Multinational companies turn to transnational alliances in order to enlarge limited market opportunities (Baranson, 1990). Often, companies leverage and learn their partners' strengths and distinctive competencies to gain access to large and highly competitive markets. Extended network boundaries offer new marketing opportunities in terms of both new suppliers and customers (Ulf and Ulf, 1996). In particular, as various areas of the world are becoming much more implicitly regulated, multinational enterprises wishing to gain access to potential and emerging markets are likely to engage in cross border alliances.

According to the eclectic paradigm of international production, cross-border alliances can offer additional benefits to firms engaging only in domestic co-operation (Dunning, 1993). As the ownership-specific (O) advantages of international firms are non-location bound which can be exploited internationally, they decide to internalise the "O" advantages across boundaries via international alliance development. This is to enhance their international marketing capabilities and expand their market scope across borders. Also, cross-border alliances help international firms to enhance their "O" advantages which leads to improved market positions. In this respect, the firms can combine their own strategic resources and capabilities with those of their foreign partners in order to develop existing skills and promote innovative competencies. This leads to their stronger competitiveness and the expansion of their market boundaries.

Likewise, in order to expand their market boundaries and scope of activities, partner firms also use alliances as a platform to enhance their technological advantages, cost advantages, competency empowerment, and superior images and reputations resulting from cross-border alliances (Lei, 1993). Strategic alliances, particularly international co-operation, can be constructed to assimilate advanced competencies, to revitalise core operations of allied firms, and to search for new uses of existing expertise in order to improve status in the market. The cross-border co-operation also urges firms to disseminate the newest and cutting edge technology to partners in order to amortise R&D costs and improve the specialisation of research-based competencies (Lei and Slocum, 1990; Ohmae, 1989). In many cases, advanced expertise from partners can encourage firms to create a new set of core competencies in areas in which they have limited experience (Lei, 1993; Levinson and Asahi, 1995; Burgers, Hill, and Kim, 1993). Also, cost as a competitive edge is a major tool for market development. The immense fixed costs of current global products emerging from research and development, information technology, and building world-wide marketing supports promote the needs for transnational alliances (Ohmae, 1989; Clarke, 1987). Sharing and lowering the costs of highly uncertain technological development projects and gaining economies of scale and scope in value-adding activities are motives for adopting such co-operation (Lei and Slocum, 1990).

Further, regarding the transaction cost analysis, a major cause of transaction costs of international activities is imperfect competition and protectionism (Itaki, 1985). In this case, international alliances between partners from different countries can be used as an device to tackle the transaction cost problem and advance their foreign market activities. The cross-border co-operation helps the international firms to overcome trade barriers and protective measures. This results in the efficiency in the international market competition and leads to the reduced overall transaction costs in foreign market expansion.

Various non-cost competitive factors, such as an existing range extension, strong brand image, broader customer base, and superior products or services, are of crucial concern to establish strategic relationships in order to better satisfy the needs of firms' existing and potential customers (Clarke, 1987). Adopting international collaborations helps to strengthen a standardised marketing approach to creating and controlling the global image of the allied firms (Lei and Slocum, 1990).

Evidently, the partner firms' capability advancement in various aspects to achieve domestic and international market development is relatively long-term oriented. The advancement requires times to be learnt, absorbed, and developed. The market-offensive motives, then, should provide the firms with sustainable market growth and expansion. In this respect, the ultimate aim of cross-border alliances is to strengthen firms' market positions and expand their market boundaries through various capability and competency enhancement. Therefore, the fourth hypothesis may be proposed as follows:

The market-offensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.

3.3.2.2 Resource-Offensive Motives

Regarding the resource-oriented perspectives, a bundle of resources primarily fosters a firm's competitive advantage (Dierickx and Cool, 1989; Barney, 1986) and can be deployed to protect and promote marketing position of firms. In this respect, the resources, *both tangible and intangible*, lie at the heart of alliance motives in promoting partner firms' prosperity through synergy and complementary effects resulting from exchanging and combining their resources. The resource-offensive motives focus primarily **on acquiring and utilising foreign partners' assets and resources in order to enjoy incremental benefits and improve their performance from such activities.** The international alliances, then, are directly aimed at achieving synergy from utilising foreign partners' resources, rather than expanding firms' market share. In this respect, international firms are likely to quickly obtain benefits from resources transferred from their foreign partners, instead of gradually learning and enhancing themselves. Thus, the resource-offensive motives are relatively short-term oriented, compared with the market-offensive ones.

From the concept of the eclectic paradigm of international production, international strategic alliances are motivated by the significant benefits of national differences in terms of resources and assets. International firms then internalise their "O" (ownership) advantages by developing cross-border alliances in order to achieve locational advantages (L) in particular countries. In this case, cross-border alliances are expected to help international firms to access and utilise the strategic resources and assets of particular locations. The partner firms then can gain greater wealth and improve their operational performance.

Often, cross border alliances are important for creating sources of global competitive advantage as well as creating and delivering value to global customers through the bundle of partners' resources. As identified by O'Brien and Tullis (1989), strategic alliances are stimulated by firms' needs for financial resources and other assets of their partners to improve their overall performance. International alliances are believed to provide firms with greater access to various physical and financial assets across boundaries through mutual contributions between foreign partners. In addition, firms need to engage in strategic alliances in order to grow, develop new products, and leverage themselves via the uses of strategic resources from partners (Fletcher, 1994). Also, Roth (1995) notes that international firms realise the importance of independent strategic resource stocks in multiple countries. The firms then endeavour to accumulate, combine, and transfer the resources across boundaries through international alliances. In this respect, the transfer and integration of the resources lead to higher competitiveness and positive economic outcomes of the partner firms.

Recently, cross-border alliances have moved away from traditional collaborations toward channel partnerships to strengthen the entire distribution chain. International distribution channels and other marketing facilities of foreign partners, consisting of distribution channels, marketing analysis departments, business connections, and customer bases, stimulate firms to enter into cross-border alliances (Brouthers, Brouthers, and Wilkinson, 1995). Firms generally need to acquire foreign partners' distribution channels in order to build up a fast presence of a firm's products in international markets with relatively little capital investment and low risks (Lei and Slocum, 1990).

Alliances are also aimed at exploiting the complementary competencies and potential synergies that partners can offer (Ulf and Ulf, 1996). Companies directly leverage their foreign partners' strengths and distinctive competencies to gain greater access to large and competitive markets and advance their international operations (Dull, Mohn, and Noren, 1995). Also, in addition to physical assets and competencies, international alliances are expected to offer accurate and timely information on firms' target and potential markets in order to better respond to market needs. Improved communication and information power are recognised as strategic advantages to foster firms' collaborative arrangements (Harrigan, 1987). Further, new uses of sophisticated information technology to communicate, distribute, and obtain market data require new flexible forms of organisation, such as cross-border alliances, in order to pool resources and respond promptly to the industry.

In this context, it is evident that the major focus of international alliances is on acquiring and exchanging both tangible and intangible resources between partners in order to improve firms' operations and overall performance as well as to further their competitive positions. Therefore, the fifth hypothesis may be proposed as follows:

The resource-offensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.

The following section refers to the issues of foreign partner selection process and major criteria involved.

3.4 International Strategic Partner Selection

3.4.1 The overall framework

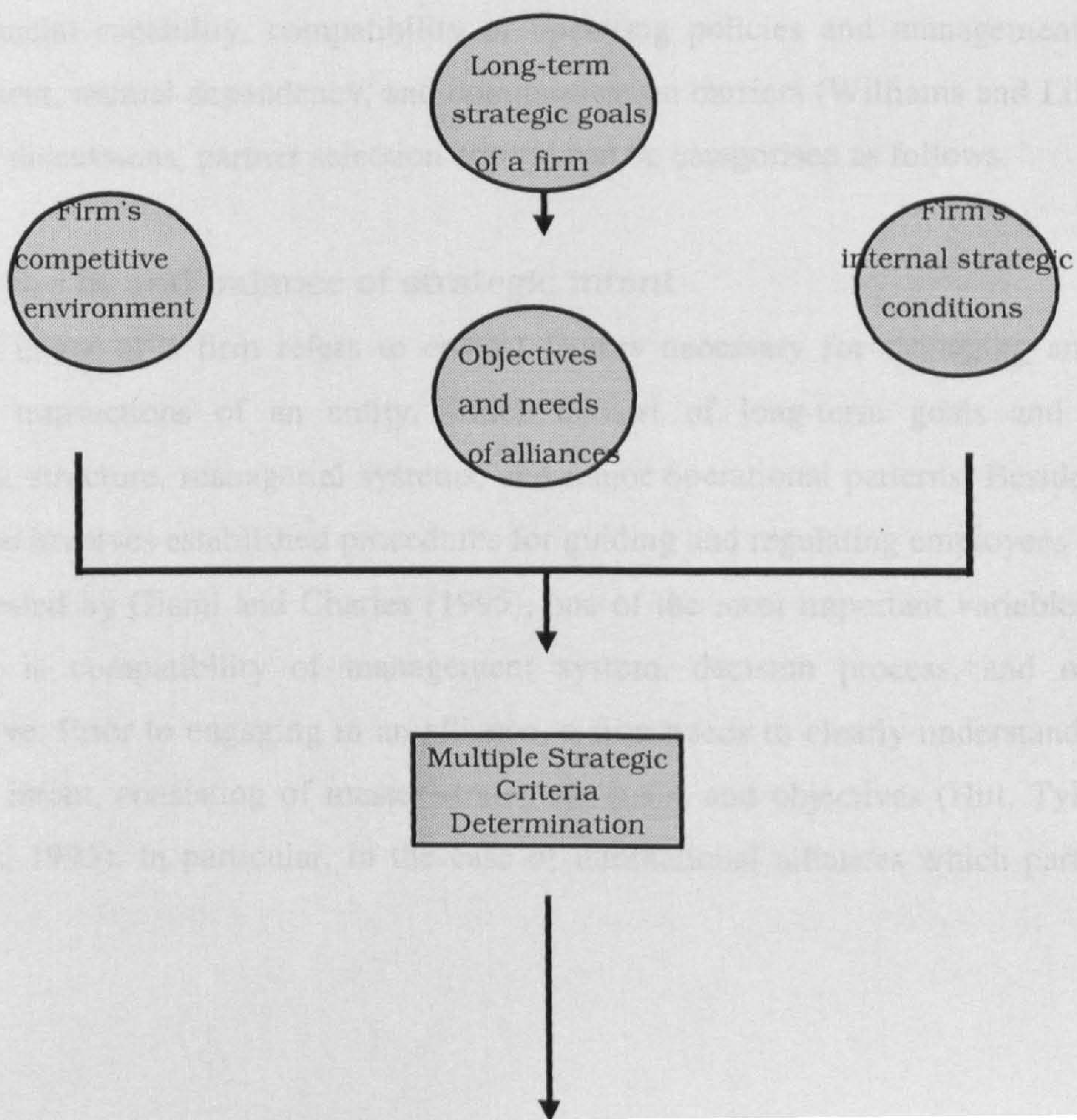
The selection of eligible foreign partners is paramount to successful alliance, due to the skills, resources, and ability to be gained from collaborations in order to achieve alliances objectives (Berg and Friedman, 1982; Killing, 1983; Harrigan, 1985; Brouthers, Brouthers, and Wilkinson, 1995; Spiegel, 1993). Ohmae (1989) also notes that strategic alliances are similar to marriages. Choosing a business partner is very like selecting a spouse (Williams and Lilley, 1993). Thus, the overall framework associated with foreign partner selection is employed to consider major influential factors in the selection processes.

Figure 3.4 illustrates the conventional process of screening and selecting foreign partners. The flowchart represents sequential procedures for choosing partners, together with sources of information on prospective foreign partners. Firstly, firms set up its long-term strategic goals and plans associated with the future directions of an organisation. As a consequence, a company can identify its own competitive position and identify the needs and the importance of engaging in an cross-border alliance, which must be consistent with the firm's existing core strategic intent. In this stage, executives of a company must also thoroughly assess a firm's competitive environment and understand its internal strategic conditions. The firm has to realise its needs to engage in cross-border activities and decides to use international alliance as a strategic device to improve its foreign operations. Then, managerial implications, obtained from analyses of cross-border alliance objectives, competitive situations, and management's attitudes, will be used to identify variables for foreign partner selection.

The ensuing phase is to evaluate the key variables and qualifications of prospective partners as well as developing frameworks and multiple selection criteria. In addition, the relative importance of each foreign partner selection criterion must be determined and prioritised (Geringer, 1991; Tomlinson, 1987). Next, information on firms' prospective partners is searched. The information about prospective foreign partners can be searched from existing partner profiles of the research and marketing department or experiences of executives in the organisation. Other external partnership sources include commission-based partner search services, matchmakers, a direct marketing consulting firm, and recommendations and suggestions from other related parties. Consequently, the prospective foreign partners will be considered and assessed on the basis of various major multiple criteria determined. Finally, via a thorough assessment of these potential partners, the eligible entities will be selected and approached to be firms' foreign partners. Afterwards, firms may approach their prospective foreign partners through developing and distributing partnership proposals to them.

3.4.2 Strategic criteria for partner selection

The major question here is how the business can ally itself with a suitable foreign partner and what are the major criteria for selecting the foreign partner. The criteria for the business marriage concern executives who intend to form effective collaborations, especially cross-border alliances.



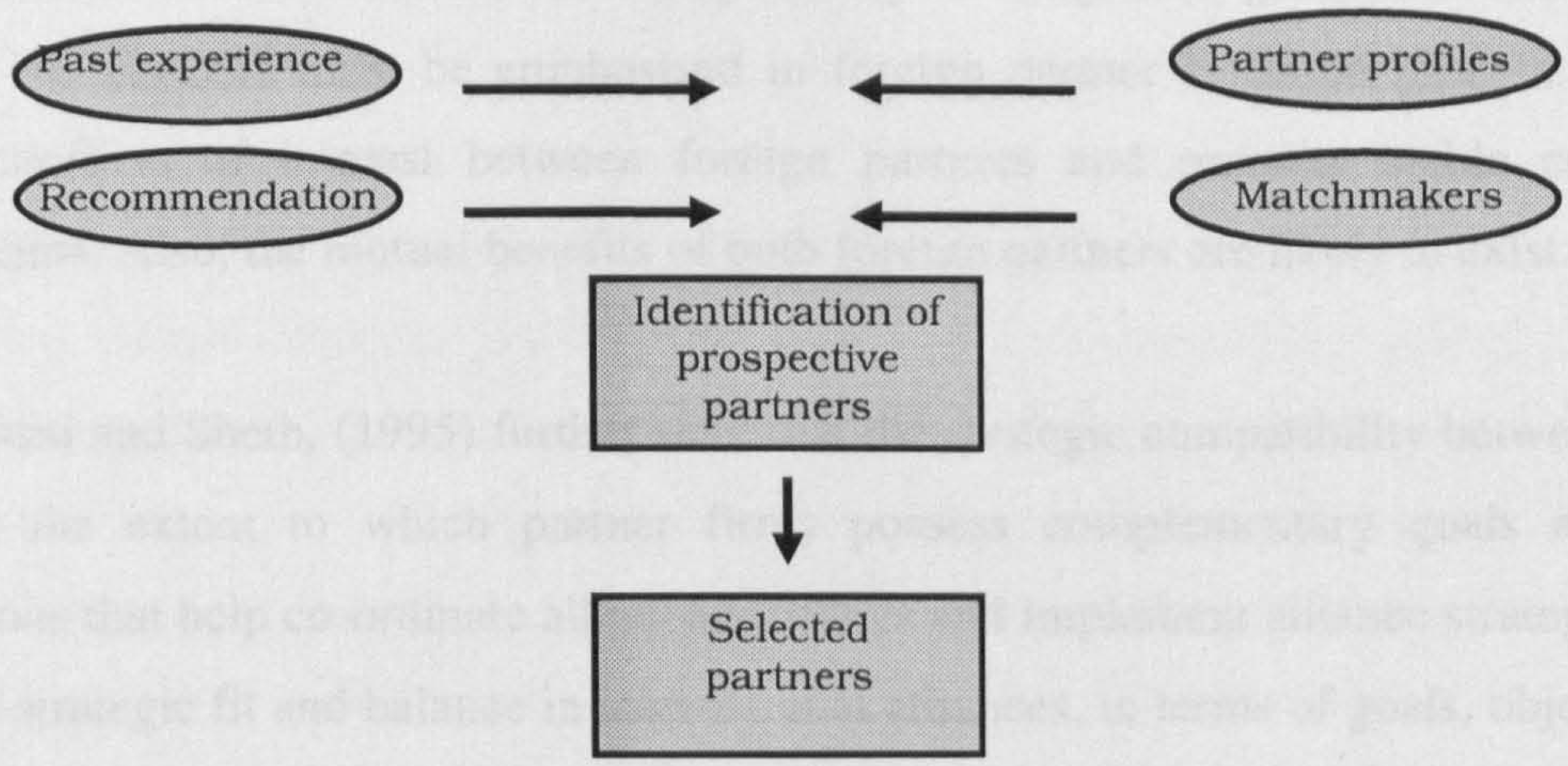


Figure 3.4 Strategic Partner Selection Model

In general, the compatibility of culture, complementary expertise, and differences in strategic goals should be considered when the business decides to use this strategy (Stiles, 1995). Hitt, Tyler, Hardee, and Park (1995) also suggest that firms should understand clearly each partner's strategic intent in terms of major strategies, goals, and purposes. Moreover, a model of partner selection proposes that the strategic criteria of partner selection should consist of strategic compatibility, complementary skills and resources, relative company size, financial capability, compatibility of operating policies and management, trust and commitment, mutual dependency, and communication barriers (Williams and Lilley, 1993). From the discussions, partner selection criteria can be categorised as follows.

3.4.2.1 the fit and balance of strategic intent

Strategic intent of a firm refers to critical factors necessary for managing and handling business transactions of an entity, which consist of long-term goals and objectives, strategies, structure, managerial systems, and major operational patterns. Besides, strategic intent also involves established procedures for guiding and regulating employees' operations. As suggested by Giami and Charles (1995), one of the most important variables in partner selection is compatibility of management system, decision process, and management perspective. Prior to engaging in an alliance, a firm needs to clearly understand a partner's strategic intent, consisting of master strategies, goals, and objectives (Hitt, Tyler, Hardee, and Park, 1995). In particular, in the case of international alliances which partner entities come from different countries, the compatibility in long-term goals and strategic plans between the partners must be emphasised in foreign partner selection process. This is to reduce conflicts of interest between foreign partners and promote stable cross-border relationships. Also, the mutual benefits of both foreign partners are likely to exist.

Shamdasani and Sheth, (1995) further state that the strategic compatibility between partners involves the extent to which partner firms possess complementary goals and similar orientations that help co-ordinate alliance activities and implement alliance strategies. In this case, the strategic fit and balance in international alliances, in terms of goals, objectives, and strategies, lead to the mutual understandings between foreign partners and eventually result in successful cross-border collaboration. Anderson and Narus (1990) also insist that the mutually agreed strategic goals of compatible partners lead to satisfactory collaborative performance.

Further, fit and balance on strategic grounds is also emphasised by Kanter (1994). Common managerial experience and principles ought to be considered in assessing partner attributes (Kanter, 1994). The common long-term perspectives and visions of both foreign partners are considered important in foreign partner selection process. Also, the acceptance of mutual adaptation of prospective foreign partners should be taken into consideration in this respect. In addition, the managerial decisions associated with quality and competitive policy of partner firms must be matched in order to enhance international alliance effectiveness.

Many cross-borer alliance cases show that a conflicts of interest and objectives always leads to a disaster in a collaboration. According to Contractor and Kundu (1998), a significant amount of transaction costs in cross-border co-operation arises from opportunism between foreign partners. International firms then should select suitable foreign partners in order to avoid opportunistic behaviours in alliances. In this case, compatibility of goals, strategies, and major managerial policies between foreign partners is required in foreign partner selection process so as to reduce conflicts of interest which potentially lead to the opportunistic behaviours in international co-operation.

Further, goal incongruency of partner firms can hinder the development of alliances and easily leads to varying perspectives in the co-operation (Drago, 1997). In the case of cross border alliances, compatible strategic directions between partners from different countries in terms of global and international strategies is of importance (Benson, 1994). The long-term visions of foreign partners should be compatible with each other in order to guarantee the stability of cross-border co-operation. Brouthers, Brouthers, and Wilkinson (1995) further suggest that partner firms are not required to have the same goals but these goals must be compatible. Likewise, commensurate levels of risk, then, are taken into account to find a right partner (Brouthers, Brouthers, and Wilkinson, 1995). In this respect, the selected foreign partners must possess compatible goals and have a low possibility of becoming a firm's foreign rivals.

Strategic intent also includes the relative size of partner firms. This is because company size relates closely to corporate strategies, structures, and managerial systems of a firm. In this respect, it is evident that international firms tend to ally themselves with similar-sized foreign companies in order to maintain equal bargaining positions and stable relationships in cross-border alliances. Murray, Mahon, and Mahon (1993) provide evidence that collaborations with significantly weaker partners are most likely to be unstable due to unbalanced negotiation and control power over a co-operation. International strategic alliances between firms similar in size are also more symmetrical than those between large and small entities (Hara and Kanai, 1994). Moreover, cross-border networks work better when there is only a small difference in the size of each foreign partner (Brouthers, Brouthers, and Wilkinson, 1995; Hara and Kanai, 1994). Daniels (1971) cites that, by selecting a similarly sized partner, an allied firm can be assured that all firms involved in the collaboration are of the same importance and possess equal negotiating power. This leads to a symmetrical international alliance.

As the degree of strategic compatibility between partners can also be an indicator of the success or failure of an alliance, it is employed as a major criterion in partner selection (Murray and Siehl, 1989). Strategically compatible partners can prolong the longevity and promote the stability of cross-border collaboration. In addition, this also enhances long-term skill learning and improvement as well as promoting sustainable competitive advantages of international partners. Therefore, the sixth hypothesis may be proposed as follows:
The fit and balance of strategic intent are of significant concern to Thai Financial Enterprises (TFEs) in the foreign partner selection.

3.4.2.2 synergy and complementary competency

Synergy and complementary competency of foreign partners is one of the major criteria in cross-border alliance development. A firm's core competencies comprise skills, knowledge, ability, technology, specialisation, expertise, creativity and innovation, as well as image and reputation (Shamdasani and Sheth 1995). Complementary competencies in alliances involve how partner firms co-ordinate their resources to maximise the partnership's competitive advantages (Hamel, 1991; Walters, Peters, and Dess, 1994; Killing, 1983; Geringer, 1991; Brouthers, Brouthers, and Wilkinson, 1995; Banks and Baransan, 1993; Mason, 1993). According to the eclectic paradigm of international production, foreign partners in a cross-border alliance should possess the "O" (ownership) advantages which are complementary to those of each other so as to create a new source of advantages to the whole alliance. Thus, international entities within a cross-border collaboration are supposed to complement each other in terms of skills, expertise, resources, assets, technology, as well as managerial experience and industrial information in order to create synergy and continue their future prosperity.

McKee (1994) states that firms ought to choose partners who possess complementary skills in order to help partner firms to gain resources that they lack. From the resource-based perspectives, international firms develop their cross-border alliances in order to transfer, exchange, and absorb their needed resources with their foreign partners. This is to maximise the firms' overall value. Hill and et al (1990) note that firms then have to seek suitable foreign partners possessing appropriate strategic resources to share the resources with. This is to integrate the resources and create positive synergy from the co-operation. In this case, the unique resources of each partner are identified and the international firms are highly likely to develop cross-border alliances with foreign partners who can lead to collaborative synergy from complementary competencies.

In this respect, the needed resources and competencies to be provided by the firms' foreign partners are of importance in order to enhance partner firms' international capabilities. Also, the advanced technology and expertise of foreign partners appears to promise desirable improvement in products/services standards and to promote efficiency of the whole cross-border collaboration. This helps partner firms to defeat the technological barriers of their operations by adopting the competencies from their partners (Brouthers, Brouthers, and Wilkinson, 1995; Banks and Baransan, 1993; Doorley, 1993).

Evidently, the complementary competencies of potential partners provide an allied firm with learning opportunities (Crossan and Inkpen, 1995). Dull, Mohn, and Noren (1995) indicate distinctive competencies, which companies probably learn from their partners, including creative reengineering and innovative skills, key account management skills, conflict resolution skills, and adaptable information systems. In this case, international firms are able to receive sophisticated skills and expertise transferred from their foreign partners and advance their operational capabilities. As a result, the needs of required competencies that partner firms lack are fulfilled. In addition, Kumar (1995) suggests that industry-specific and foreign experience are another important attributes of potential partners. Previous industrial backgrounds and modern global management skills of prospective foreign partners, which can sharpen their capabilities in the international markets, are emphasised in foreign partner consideration.

Foreign partners' physical resources, such as production facilities and international marketing networks, also help enhance the effectiveness of transnational collaboration. As an establishment of market share requires efficient marketing facilities, including distribution systems, promotional activities, and marketing practices, the market share can be a proxy of a "*complementary asset*" of the partners (Teece, 1986). The strong international market power of potential foreign partners, which is indicated by established market share in the domestic and foreign markets, also seems critical for foreign partner selections in order to create strong mutual marketing positions. Moreover, the complementary competencies of foreign partners also include existing relationships and connections with local and foreign entities. Such relations foster a suitable climate for expanding business both domestically and internationally.

Lei (1993) also reports that choosing partners who own complementary skills helps reduce direct competition, mix technology, and balance asymmetrical relationships. In this case, international firms select their foreign partners by considering opportunities to gain mutual prosperity from combining and exchanging their complementary resources, which create positive synergy to a whole cross-border co-operation. Furthermore, international firms'

needs of necessary resources and advanced competencies of which they are in shortage are able to be fulfilled. Therefore, the seventh hypothesis may be proposed as follows:
The seventh hypothesis: *Thai Financial Enterprises (TFEs) interested in allying themselves with foreign partners regard synergy and complementary skills as the major criteria in selecting foreign partners.*

3.4.2.3 Cultural issues

Cultural differences are regarded as a major criterion in the partner selection process, particularly in international alliances (Brothers, Brouthers, and Wilkinson, 1995; Ohmae, 1989; Yoshino and Rangan, 1995). A large proportion of alliances fail because they do not realise the importance and effect of these "soft" factors (Ludlow, 1997). As also noted by Williams and Lilley (1993), the greater the cultural gap between the firms forming a joint venture, the more difficult it will be to create the necessary cohesion. He also further suggests that the problems in doing business internationally occur owing to differences between nation, ethnic group, tradition, and language. Cultural fit is required to build a cohesive network in this case as it results in smoothness in co-operation (Bronder and Pritzl, 1992).

In order to investigate the cultural issues of potential partners, past performance and participation in previous alliances are a strategic source for acquiring information on cultural beliefs (Brouthers, Brouthers, and Wilkinson, 1995; Walters, Peter, and Dess, 1994). Examining performance records of potential partners is a key factor in partner selections (Morgan and Stundza, 1993). Similarly, Lei (1993) offers a concept of pre-nupital planning which involves co-operating in a small project prior to adopting international alliances. Significant operational and cultural differences, including differences in authority, reporting, and decision making styles, can be noticeable in this stage (Kanter, 1994). Further, Gulati (1995) further proposes that the social context and relationships emerging from past strategic collaborations provide firms with valuable information on the capabilities and reliability of prospective partners.

Cultural issues in this study are divided into two categories, operational culture and pure culture (individual attributes), as follows.

3.4.2.3.1 Operational culture

The term *"culture"* in this category focuses on corporate and operational culture. Denison (1990) states that corporate culture involves underlying values, beliefs, and principles that serve as the fundamentals of organisational operations. Byles and Keating (1989) pay close attention to basic values, beliefs, basic assumptions, and common understandings directly related to operational grounds, which are held throughout a firm.

With reference to empirical studies, multinational networks usually fail when the organisational values, beliefs, and philosophies of each partner are significantly different (Cartwright and Cooper, 1993). Vast differences in operational styles, perspectives, and orientations cause major inconsistency between foreign partners in a cross-border collaboration and lead to future difficulties and conflicts the international alliance. Hence, in searching for compatible foreign partners, styles and attitudes towards delegation, decision-making, and responsibility of potential partners must be identified in order to assess international partners' suitability. The tradition in doing business of each partner are also regarded as major barriers to establish efficient networks (Ohmae, 1989). Further, the attitude towards inter-firm co-operation of foreign firms in an international collaboration is an important criterion. In this respect, if the foreign firms do not have a right attitude to inter-firm co-operation, they are likely to fail in international collaborations.

According to the transaction cost analysis, international firms tend to ally themselves with compatible foreign partners in terms of operational cultures. This is to reduce a possibility of operational conflicts and culture shocks between the partners. The compatible culture between foreign partners also eventually leads to the reduced international operation costs and efficient cross-border co-operation.

Clearly, different cultural issues significantly affect compatibility among foreign partners in a cross-border alliance. The compatible corporate culture among partners is likely to result in clarity, strength, and trust in a co-operation (Fedor and Werther, 1996). The trust and handshake based relationship is likely to be successful without a written contract (Sheridan, 1997). Mohr and Spekman (1994) also report that the principal attributes of partnership success consist of co-ordination, interdependence, trust, and commitment. Moreover, a committed partner in this respect tends to exert considerable effort and balance short-term problems with long-term goals (Angel and Perry, 1981). A high level of commitment in co-operation can also reduce unpredictable activities and the opportunistic behaviour of partners (Mohr and Spekman, 1994; Cummings, 1984). Thus, cultural similarity is preferable as it leads to a satisfactory level of commitment between partners (Shamdasani and Sheth, 1995).

In brief, a good cultural match in an alliance plays a larger and more stable role than only concentration on particular strategic and financial synergy (Fedor and Werther, 1996). Differences in the operational cultural background between international firms in a transnational alliance can induce significant failures in the co-operation. In contrast, the greater cultural similarity between international partners leads to the potential for greater interdependence and integration. The operational success of international alliances also depends on the continuing contributions and consistent day-to-day operational processes of all partners. Therefore, the eight hypothesis may be propossed as follows:
The operational cultural differences between Thai Financial Enterprises (TFEs) and their potential foreign partners are considered a crucial factor in establishing the TFEs' international networks.

3.4.2.3.2 The individual attributes or purely cultural aspects

The individual attributes or purely cultural aspects refer to a distinctive set of patterns of behaviours, common understandings, and characteristics which are specifically held by a particular firm. Unlike operational cultural aspects, the individual attributes are not directly related to the operational process of a firm. They are concerned with daily and general activities usually held throughout an organisation. The purely cultural aspects may indirectly influence operational grounds and slightly affect a firm's performance. Their impacts on firms' performance are not as strong as those of operational cultural issues.

Geringer (1991) insists that the individual attributes and characteristics of prospective foreign partners affect efficiency and effectiveness of cross-border collaborations. The high degree of consistency in individual value and characteristics of each foreign partner should foster trust and co-operative relationship among the partners in international alliance (Fedor and Wertherm, 1996). Regarding the distinctive attributes of each particular firm, factors of kinship, tribal groups, religious, racial, and personal differences are constituent parts of a purely cultural aspect. Similarly, significant differences in these factors between foreign partners can complicate a web of cross-border co-operations and eventually jeopardise the cohesion of international alliances. Language is also one of the inevitable barriers in co-operating with foreign firms. As communication barriers are regarded as a major selection criterion (Williams and Lilley, 1993), problems probably resulting from language differences must be taken into account to assess a prospective foreign partner's suitability.

In addition, geography, temperature, humidity, language, lifestyle, life span, and social obligation, which are different among countries, are also major elements in foreign partner selection (Desatnick and Maddison, 1977). These factors are individual characters in a particular firm and not directly related to the firm's operational process. Yet, it is believed that the differences in these factors are likely to cause conflicts and problems in an international strategic collaboration. Hence, these factors need to be taken into account for foreign partner selection.

Likewise, different social values of different areas of the world probably pose problems of managerial systems and working procedures. Different social and psychological structures among international partners in a cross-border alliance influence the status and behaviour of the whole collaboration. This possibly causes difficult consequences to international co-operation in terms of working conditions, supervision, and discipline of work. In this case, the cultural and individual beliefs of foreign partners which are transferred from their parent organisations will consume time, energy, and management talent to be reconciled (Fedor and Werther, 1996).

All differences in purely cultural factors and individual characteristics described above obstruct the effective operations of partner firms, particularly in cross-border alliances. Culturally different alliances are always disappointed by the lack of acceptance and of common interest. Instead, the low degree of differences in individual attributes between foreign partners results in closer cross-border co-operation and co-operative atmosphere which presents opportunities for technology transfer and learning, efficiency, and synergies. Therefore, the ninth hypothesis may be proposed as follows:

The individual attributes of foreign partners are regarded as major criteria in the TFEs' foreign partner selection process.

The four dimensions of strategic criteria are illustrated in figure 3.5

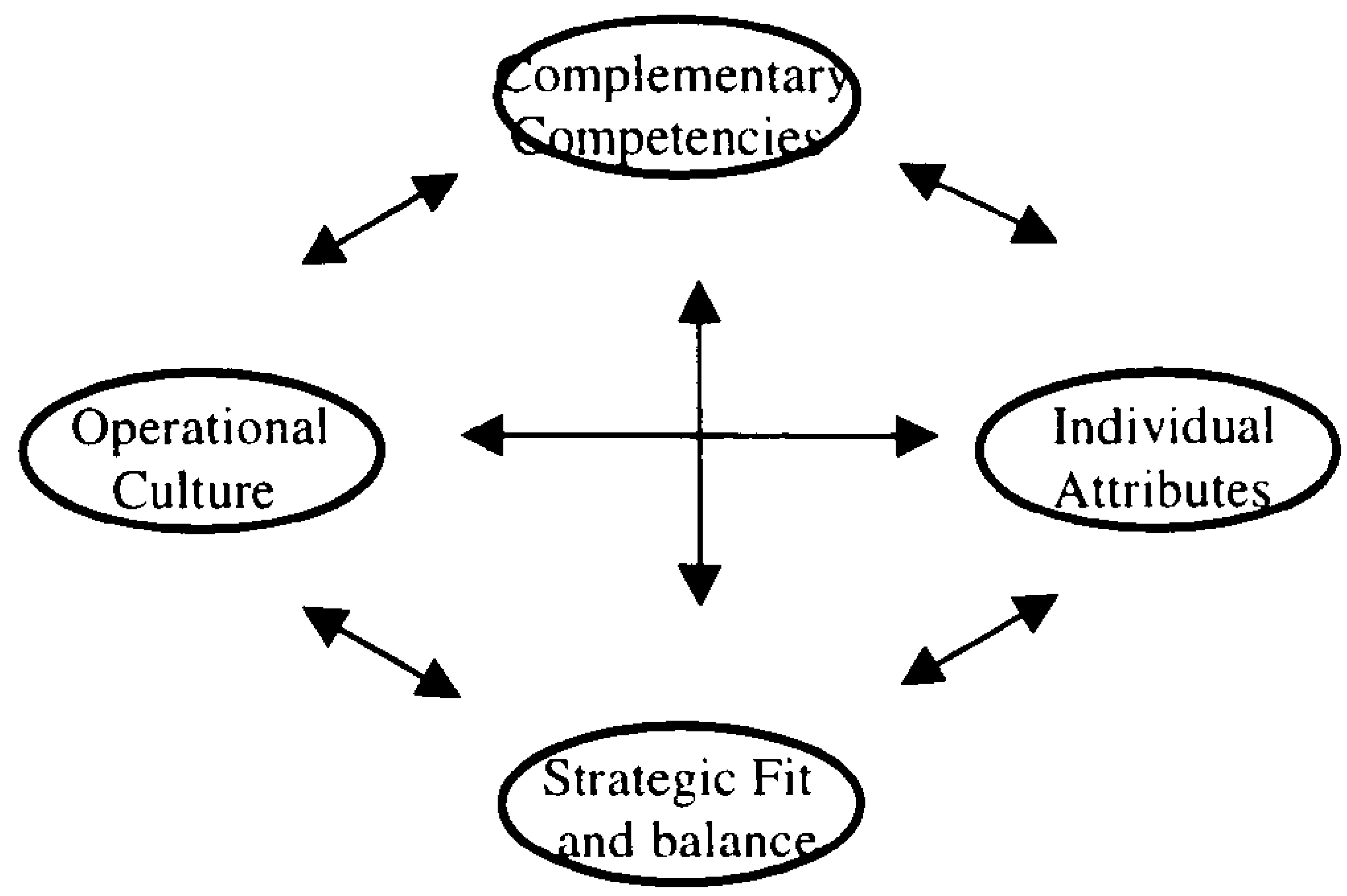


Figure 3.5 Four dimensions of Strategic Criteria

The next part involves strategic alliance timing, another major factor of alliance formation.

3.5 Strategic Timing of International Alliance

This section centred on assessment and determination of appropriate timing for establishing international strategic collaboration. This refers to a question of when a firm should start to ally itself with its prospective foreign partner. As firms aim to achieve their motives in alliance development as well as to promote the effectiveness of their cross-border collaboration, the right "timing" of alliance establishment, which is suitable for business environment at a particular period of time, is likely to offer more chances to achieve co-operation success. In this respect, two strategic signals, *industry attractiveness to foreign partners and firm's relative competitive position,* are given to considering the suitable timing of international alliance development.

3.5.1 Industry attractiveness to foreign partners

Market demand conditions seem to be a major factor in promoting the international attractiveness and competitive advantage of an industry. In this respect, firms are likely to choose their timing for alliance establishment when various market conditions in the industry sound promising in order to attract their prospective foreign partners. Huge market opportunities in the alliance can also facilitate both partner firms to achieve considerable market benefits (Manuel and Wayne, 1996). Likewise, firms tend to create an international co-operative agreement when they realise that there is a high potential of industry demand available for expanding their scope of operations (Conklin and Perdue, 1994). In this case, both partners are able to quickly gain a greater amount of sale volume from the growing markets and achieve more market share by combining their marketing resources and facilities. Moreover, the degree of internationalisation of an industry is also likely to attract attention from foreign partners as there is a sign of market expansion and the industry can provide participants with greater market opportunities. Thus, the industry that is being increasingly internationalised and exposed to foreign markets seems to be a signal for developing cross-border alliances of firms in the industry.

Abundant and sufficient resources and facilities provided in the industry at the time of international alliance development are also important in order to support further expanded operations of the alliance. In this respect, Elenkov (1995) points out that successful international alliances in Russia are arranged when there are an abundance of major materials, human skills, support from related industries, and production technology and facilities in the industry. This is because these factors can attract powerful multinational foreign partners who possess modern managerial and marketing skills as well as capital to be their partners. Likewise, regarding the resource-based perspectives, as the major purpose of international alliance development is to seek, acquire, and utilise strategic resources across boundaries, firms then are likely to develop their cross-border alliances when their industry has abundant resources. This is to respond to foreign partners' need and help them gain considerable benefits from the alliances. Further, the abundance of various resources in the industry can attract prospective foreign partners and help the firms to gain greater bargaining power in alliance negotiation. This usually leads to long lasting relationships and the mutual benefits of both foreign partners.

Further, strong government protection in the industry was also provided at the time (Elenkov, 1995). Similarly, Lei and Slocum (1990) cites that firms adopt multiple cross-border alliances when the investment and operations in their industry is clearly supported by their governments. The firms aim to gain advantages from favourable and protective government policies in order to expand their market boundaries and gain market share in the global market. In the cases of international alliances in Asia, the origin of Japanese "keiretsu" and Korean "chaebol" also exist with strong government support and where they can benefit from the long-term economic development programmes of the governments (Lei and Slocum, 1990).

Significant support and opportunities in related industries also inspire firms, which are well-settled in their existing market, to set up their international collaborations (Sankar, Boulton, Davidson, Snyder, and Ussery, 1995). This helps the firms to gain more benefits from the prosperity of related industries and offers them greater chances to expand their business across industries. It also attracts attention from foreign partners to participate in and enjoy increased benefits in the industry as such an industry can gain more business potential from the related industries.

The competitive conditions of an industry also affect the industry's attractiveness to foreign prospective partners. The higher degree of competition in the industry possibly reduces its attractiveness due to decreased profitability of firms' product and services. Moreover, intensely competitive pressures can promote the strengths of firms operating in the industry and sharpen their competitive strategies to compete with their existing and potential rivals. This also reduces the industry's attractiveness to foreign partners who wish to participate in such an industry. Hence, it is implied that firms are likely to choose their timing of cross-border alliance development when competition in the industry is not very high in order to attract foreign partners and enjoy benefits from increased opportunities.

Further, from the perspectives of the eclectic paradigm of international production, the efficient utilisation of locational (L) advantages of particular countries is an important aim of international alliance development. This implies that the industry should have sufficient "L" advantages, in terms of various resources, market opportunities, and growth potential, to offer to foreign firms. This will attract the prospective foreign partners and bring stronger bargaining power in alliance negotiations to the firms. Therefore, firms are likely to establish international alliances when the overall conditions in the industry are bright and seem attractive to foreign partners. Likewise, with reference to the transaction cost theory, international firms tend to establish cross-border co-operation when the overall conditions in the industry are attractive to their prospective foreign partners. It is likely that when various industry conditions are promising, the co-operative performances in the industry should be satisfactory. This is because growing market conditions, sufficient input factors, as well as support from government and other related industries result in lower costs and greater benefits in cross-border co-operative activities. This leads to the profitable and stable co-operation between foreign partners.

In summary, partner firms believe that the industry's attractiveness when they establish cross-border alliances affects the overall performance of their international co-operation due to various market and resource benefits to be quickly gained from such an industry. From the bright conditions in the industry, firms can attract more foreign prospective partners and have more choices of the partners who they wish to ally themselves with. The firms will be able to quickly expand their market and scope of operations as well as to in time gain more business opportunities in the growing market through synergy from their cross-border collaboration. This also offers chances for the firms to overtake their competitors' positions in the industry. Moreover, during the period, firms are in favourable bargaining positions as developing international co-operation with them at the time provides their foreign partners with great benefits from the growing and promising investment opportunities in the industry. The firms then can negotiate for better contributions in terms of resources and complementary competencies from their foreign partners and utilise the resources for seizing business opportunities in the prosperous industry in time. Therefore, the tenth hypothesis may be proposed as follows:
Thai Financial Enterprises (TFEs) are likely to establish international co-operative arrangements with their foreign partners when at the same time they are operating in industry conditions that are attractive to potential foreign partners.

In this research, industry attractiveness to foreign firms is evaluated by a framework inspired by and adapted from Porter's diamond model (Porter, 1990) which is employed to assess competitive advantage and attractiveness of a nation's particular industry. In particular, this study aims to evaluate an industry's overall attractiveness to foreign firms that wish to take part in a wealthy and high potential industry which can provide them with satisfactory investment returns. Thus, some ideas of the diamond model are slightly adjusted in order to effectively assess the overall international attractiveness of a particular industry from a foreigner's viewpoint and to best suit the purpose of this research. The adjusted model for evaluating the industry attractiveness to foreign firms is presented in figure 3.6.

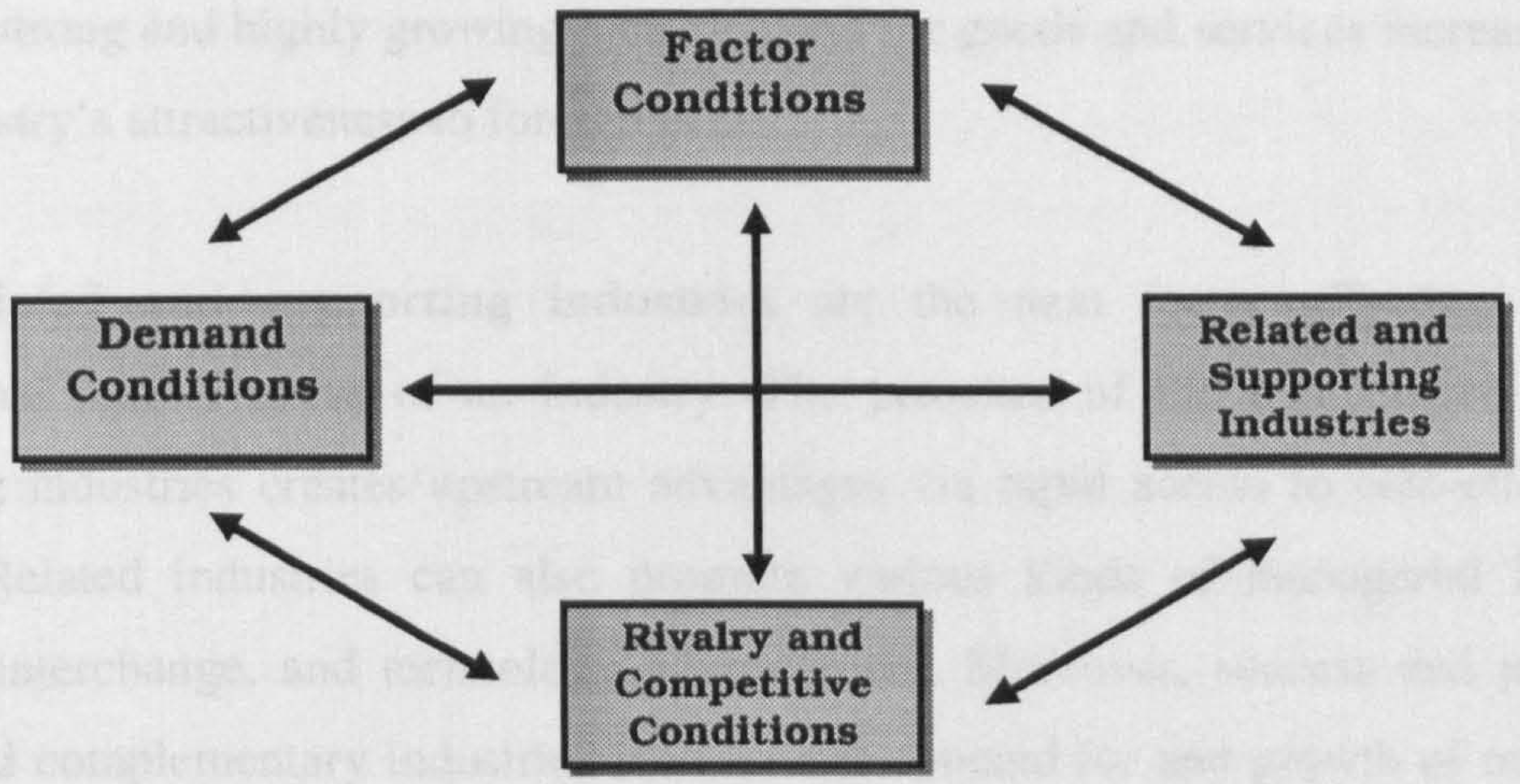


Figure 3.6 The international attractiveness of a particular industry

Source: Adapted from Porter (1990), The Competitive Advantage of Nations

The major variables used to assess industry attractiveness to foreign firms, then, consist of demand conditions, factor conditions, related and supporting industries, and rivalry and competitive conditions. First, **factor conditions** include broad categories of human resources, physical resources, knowledge resources, capital resources, and infrastructure. Regarding the *human resources aspect*, the quantity, skills, and cost of personnel are major components. The abundance, quality, accessibility, and cost of the nation's various natural resources are vital *physical resources*. In the knowledge resource element, knowledge and skills associated with scientific and technical issues as well as markets are important components. *Capital resources* include the amount and cost of capital that is available to the financial industry. Type, quality, and availability of *infrastructure*, including transportation systems, communication systems, and financial systems, are of critical importance In this respect, gaining high attractiveness to foreign firms depends on adequately possessing these quality factors and an ability to use these factors in operations.

Second, **demand conditions** involve the various aspects of home demand. The size, current growth, and the future prospect of home demand are of critical concern. The sophistication and changes of the local market needs are also important in the demand condition analysis. Moreover, the ways that local demand is internationalised and how that demand induces foreign market penetration are regarded as another concern of demand conditions. In this respect, a strong and highly growing local demand for goods and services increases the level of an industry's attractiveness to foreign firms.

Third, **related and supporting industries** are the next factor affecting the overall international attractiveness of an industry. The presence of the competitive related and supporting industries creates upstream advantages via rapid access to cost-effective input sources. Related industries can also promote various kinds of managerial information, technical interchange, and technology advancement. Moreover, success and prosperity in related and complementary industries increase the demand for and growth of other relevant industries.

Fourth, **rivalry and competitive conditions** are the last factor. The amount of domestic rivalry and competitive conditions significantly affect the industry's attractiveness to foreign firms. The higher level of competition in the industry, the lesser the attractiveness of the industry. According to Porter (1980), In industries in which there is an intense competitive pressure, many participants hardly earn attractive returns on invested capital. In this situation, the industry with strong competition is less likely to be very profitable for a long period. This is because high competition pushes down margins and limits the overall profit potential in the industry. Fierce competitive rivalry also erodes profits through higher cost of competing and through passing on profits to customers in the form of lower prices. Moreover, there is a likelihood of high instability in the intensely competitive industry. These aspects reduce the industry's attractiveness to foreign firms that wish to take part in the industry.

3.5.2 Relative competitive position

Firms' major internal aspects affecting their overall competitive position are also regarded as an indicator in international alliance timing determination. At the time of developing cross-border alliances, allied entities should be generally strong enough to expand their business scope and strengthen their competitive positions. From the empirical investigations of Lei and Slocum (1990), firms are likely to establish their international alliances when they are competitively strong in terms of operational grounds so as to heighten their operation technology and gain rapid access to new markets. Firms should have enough competitiveness prior to entering into cross-border alliances in terms of concrete competencies such as staff expertise, marketing support programmes, and managerial skills to offer them to foreign partners. Likewise, as the resource-based international alliances are aimed at fulfilling the need of strategic resources across boundaries, firms tend to establish the co-operation when they are ready to respond to such a need of foreign partners. In this case, the firms are supposed to be competitive enough to provide their foreign partners with various resources and competencies such as marketing networks, client databases, as well as operational skills and knowledge. If the firms remain relatively weak and cannot respond to their foreign partners' resource need, this possibly leads to unstable relationships.

Further, key executives of firms must also demonstrate their contributions, commitment, and agreement to engage in cross-border alliances. In addition, all the internal conditions within organisations have to be ready for handling complicated relationships with international partners. Sometimes, the allied firms are required to reengineer their corporations so that they will be adequately efficient for cross-border co-operation. With reference to the eclectic paradigm of international production, international firms have to assess their own "O" advantages before establishing cross-border alliances. This is to ensure that they are competitive and strong enough to engage in the cross-border activities of alliances. In this respect, firms must be able to efficiently manage a complex element of cross-border activities and internalise their skills to learn foreign partners' advanced expertise. If firms are relatively weak and not competitive in their industry, they are not likely to efficiently handle complicated activities of international co-operation. Therefore, international firms are more likely to arrange cross-border alliances when they are relatively competitive in the industry. Otherwise, the alliances will be prone to various problems potentially leading to unsatisfactory co-operative performance. In this case, they also can combine their "O" advantages with those of foreign partners so as to create a new source of competitive advantages from cross-border co-operation.

According to Conklin and Perdue, (1994), as far as corporate attractiveness is concerned, the corporation with the potential to operate businesses across boundaries is likely to create an international network. This is because the firm can attract more powerful foreign partners in order to build its credibility for effective expansion across borders. Likewise, international alliances always occur when firms have the potential to penetrate new foreign markets and expand the scope of the business (Lei, 1993). Clearly, many firms are eager to develop alliances when they are in their upward trajectory of their business in order to be ready to gain and utilise partners' resources and further develop new products (Gumpert, 1994).

Firms are also likely to establish their cross-border alliance when they possesses market capabilities in terms of accessibility to markets and relationships with customers. In addition, geographical coverage and wide market networks encourage companies to establish cross-border alliances. In this context, the firms can provide a foreign partner with their domestic business network and local customer base. Meanwhile, the firms are also able to use their foreign partner's contributions to help facilitate domestic market expansion. Furthermore, the firms with market capabilities are capable enough of contributing their market competencies and existing client base in return for their foreign partner's resources and contributions.

Firms are also able to gain their attractiveness through their well-known reputation in customer services at the time of alliance development (Solomon, 1995). A satisfactory track record of a firm's financial and operational performance during an international alliance development period also promotes their image to foreign partners. This helps the firms to attract wealthy foreign partners who are in need of product development and synergy for mutual development.

In this respect, the alliance timing when firms are relatively strong means that firms can be ready to deal with difficulties and complex issues arising from international co-operation. Moreover, the overall competitiveness of firms in various aspects helps them gain better attractiveness and recognition from their perspective foreign partners. As international alliance relationships are based solely on mutual and reciprocal benefits, firms' readiness to offer their foreign partners enough contributions is strictly required for stable and successful cross-border collaboration.

In general, no company is likely to partner risky firms due to increased financial and competitive risks from the collaboration (Brouthers, Brouthers, and Wilkinson, 1995). Most of them wish to have themselves allied with stable and promising partners. However, size does not seem to be a major issue in determining alliance timing. A relatively small firm but possess distinctive strengths in terms of operational skills and research and development activities can also attract a powerful and internationally recognised partner and achieve impressive co-operative performance (Dull, Mohn, and Noren, 1995; Gumpert, 1994),.

Nonetheless, a firm's difficulties in operations, such as a lack of competitive ability, cost and quality disadvantages, and bureaucratic structures accelerate alliance timing determination (Gebelein, 1993; Ricks, 1993). Also, firms in a declining period sometimes have to develop their transnational alliances immediately as they need help from their foreign partners to continue their operations (Masi, 1994; Baranson, 1990). However, although some international alliance cases show that the partners do have problems associated with corporate competitiveness, it is evident that the majority of these firms also possess strengths to possibly reverse their performance and positions. Yet, by such timing, firms may not obtain eligible foreign partners and achieve goals of international alliances due to inadequate overall attractiveness and inferior bargaining power. Therefore, the majority of firms still prefer choosing the favourable timing for their cross-border alliance establishment. Moreover, Brouthers, Brouthers, and Wilkinson, (1995) suggest that if firms really lack skills, modern technologies, and sufficient finance, then the firms must be careful in implementing this strategy. In reality, firms having many flaws and serious weaknesses should avoid international strategic alliances because they may lead to greater problems in their organisations.

Hence, it is believed that firms are likely to choose their timing for international alliance development when their overall competitive positions are relatively strong and do not have any serious problems that would significantly affect their alliances' performance. In this respect, the firms are able to be attractive to foreign prospective partners and gain better recognition. Further, the firms should not be burdens but be helpful companions to foreign partners. They then not only provide their foreign partners with required and sufficient contributions, but also are capable of learning and obtaining skills and resources transferred from their foreign partners. In addition, the firms can strengthen their negotiating power in order to bargain for fair and favourable terms in international alliance contracts. This also helps the firms to quickly gain expected benefits from their cross-border strategic co-operation. Therefore, the eleventh hypothesis may be proposed as follows:

When Thai Financial Enterprises (TFEs) develop international strategic alliances, they have relatively strong competitive positions, compared with other rivals in the financial industry.

In this research, in order to accurately evaluate the overall competitive position and determine it as an international alliance timing factor, Rohlwink (1991) offers a framework to assess various major factors affecting the overall competitive position for financial institutions, which directly matches the interest of this research and will be employed to further analyse the empirical data. The figure 3.7 identifies the key factors consisting of accessibility to customers, market coverage, service performance, staff quality, image and reputation, and price competitiveness.

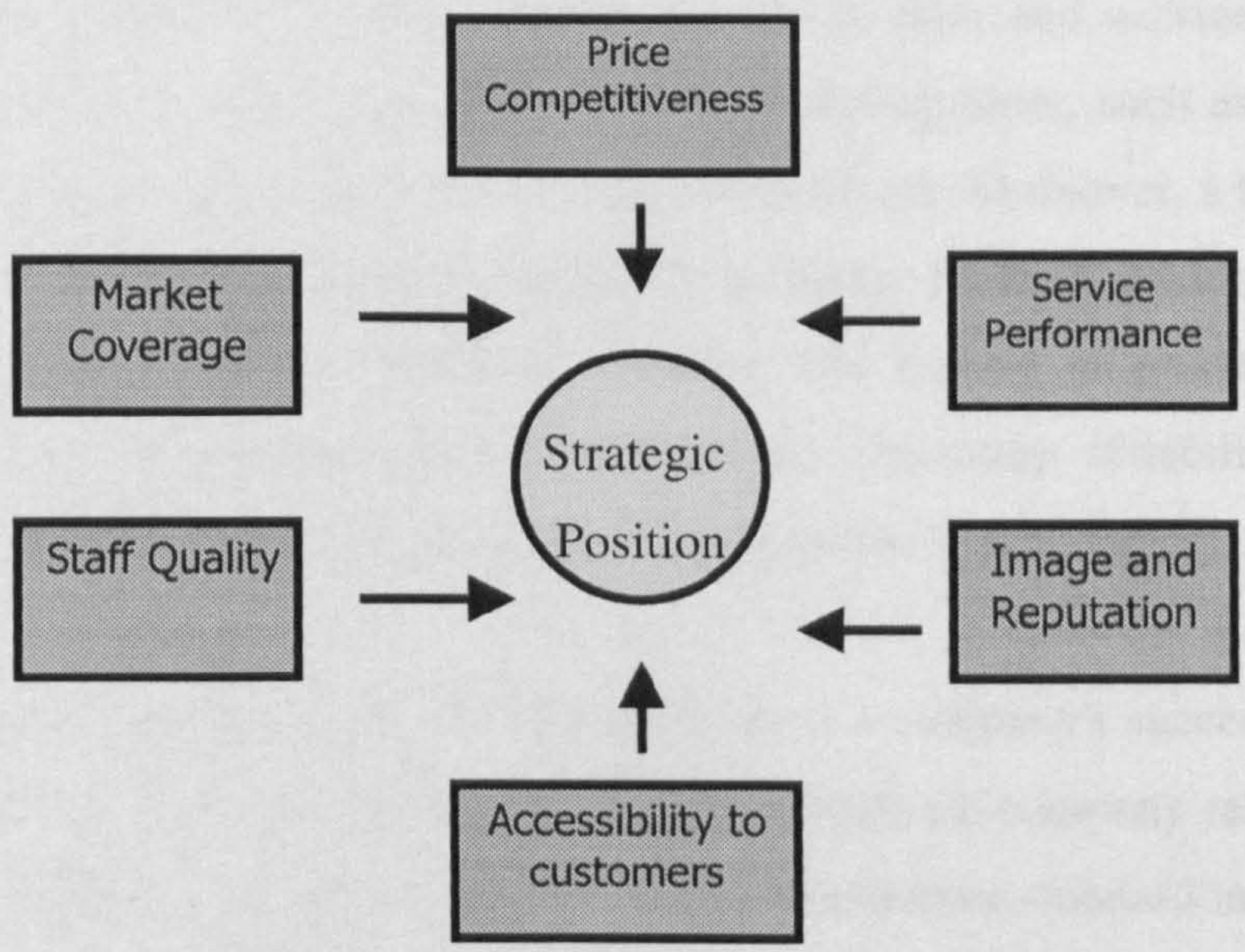


Figure 3.7 Key Factors in Evaluating Strategic Position
Source: Adapted from Rohlwink, A. (1991), *Strategic Positioning for Financial Institutions,* Woodhead-Faulker Publishers.

Figure 3.7 identifies the key factors affecting a financial firm's competitive position. First of all, at the market-oriented edge, market coverage factors as well as target customer accessibility are of vital concern. **Market coverage** capability can be seen from a firm's distribution channels, by which products and services are delivered and sold to customers. For the financial industry, the intensity and adequacy of distribution channels are considered to be one of the basic key success factors (Rohlwink, 1991). In order to evaluate market coverage capability, the overall number of physical branches, their geographic locations, and a cohesion of branch networks ought to be considered. Besides, the efficiency and effectiveness of all branches in terms of the scope of services offered and modern facilities in each branch should be included in the analysis.

In assessing the degree of **target customer accessibility**, strong relationships with an existing customer base often provide advantages in selling new products and services to the customers. A good reputation of past trading relationships with current customer groups also induces successful penetration in the new area of a market.

Service performance is another key success factor of financial corporations. This category consists of product range, product variety, and service quality. With reference to the product range element, the ability of a firm to offer a wide product and service range to target customers is particularly important. Various fixed marketing costs, such as distribution and promotion costs, can be spread over a wide range of products. Moreover, a full and complete service range of a financial company helps it to better respond to target markets and represents a barrier to entry for potential entrants. The quality of products and services offered to customers also affect a firm's performance. Accuracy, reliability, and speed of executing financial transactions are three major components in this respect.

Overall image and reputation are vital components of a company's success, particularly in the financial industry. The reputation and image of a financial company relate closely to an institution's comparative size and the credit rating received from standard international credit rating agencies. Further, unique operational styles of organisations potentially offer a fast, flexible, and quality response to particular segments of the market and create a good image to customers of financial firms.

Price competitiveness is also of concern in order to compete with rivals within the financial industry. In this context, price competitiveness comprises a number of elements. The major elements include the interest rates charged on loans, advisory fees for corporate finance projects, deposit rates, as well as various transaction fees. These pricing policies must be analysed and compared with those of other major competitors to determine the level of a firm's pricing advantage. A firms' cost of capital also has an impact on its price competitiveness.

The last factor is **staff quality.** In this respect, the ability to create professional financial services is an important concern. The technical skills and expertise of staff utilised to initiate quality services are major elements to be considered. The personal characteristics of staff, including its friendliness, building up a rapport with customers and developing customer's trust, are also of importance. The ability to sell and market a company's products and services is also necessary for sustaining and expanding market shares in the industry. The product and service knowledge of staff is another major factor in marketing sophisticated and highly professional services, especially financial services.

The framework of Rohlwink (1991) is selected because it seems to be useful and suitable for the content and purposes of this research due to the following reasons. Rohlwink's framework is based on empirical data from financial institutions and was specifically designed for evaluating the competitive positions of financial institutions. As this study focuses on the strategic formulation of financial enterprises, which is changing and radically different from those of other industries, it makes sense to employ this specific framework for the analysis. Moreover, Rohlwink is an academic who has gained a tremendous amount of experience in strategic management in the international financial industry and has been widely recognised in the field. Thus, the framework is likely to be useful and of practical relevance to this study.

However, as the framework has been developed based on numerous examples of financial institutions in Europe and the United States, it may not be perfectly applicable to financial institutions in developing and emerging countries, like Thailand. In addition, each country has its own unique mix of environment in terms of customers, services, and geographical markets. Thus, the conclusions from the analysis should be drawn with careful consideration.

To summarise, partner firms are likely to develop their cross-border alliances when both their industry environment and internal conditions are internationally attractive and strong respectively. This is primarily because windows of opportunities associated with market and resource benefits are widely open at the time. However, sometimes international alliance establishment is forced by external threats so that firms cannot choose the perfect timing for cross-border alliance development based solely upon the benefits to be gained. Moreover, a limited number of eligible foreign partners who show strong intentions to ally with firms also make them rush to establish their alliances in order to be allied with their needed prospective partners. Nonetheless, the firms have to trade off their losses and benefits expected to be gained at a particular alliance timing. Yet, the majority of the firms still prefer the favourable timing which can offer them more advantages and opportunities to accomplish their international alliance motives.

3.6 Conclusions

The formation stage is one of the most important stages in international strategic alliances and is regarded as a key success factor of the co-operation. The reasons that cross-border alliances are formed and structured are able to be explained by various theories, comprising transaction cost theory, resource-based theory, and the eclectic paradigm of international production. These different theories offer different perspectives which can be complementary with each other to complete the strategic alliance framework. Here, the theoretical perspectives on international market entry modes are also discussed to give a clear picture on various global strategies. The motives of international alliance development are categorised as two approaches, consisting of defensive and offensive motives. Moreover, each category of motives can be identified in greater detail by focusing on the market and resource perspectives of alliance establishment. In this respect, international alliances are stimulated by market-defensive, resource-defensive, market-offensive, and resource-offensive motives. These alliance motives are influenced by a number of factors and reasons. In addition, in the view of Burgers, Hill, and Kim (1993), a difference in the size factor of business units also affect firms' strategic decisions associated with motives of alliances.

With regard to international partner selection process, firms seek information on their prospective foreign partners via database of their own firms, past experiences of executives, a commission-based partner search services, marketing consulting firm, and recommendations from other related parties. Major international partner selection criteria include fit and balance of strategic intent between partners, synergy and complementary competencies of partners, differences in operational cultural issues, and consistency in individual attributes or purely cultural aspects. Furthermore, international strategic alliance timing, another important factor in cross-border alliance formation, can be determined by industry attractiveness to international partners and firm's relative competitive position. The main reasons to encourage firms to choose the suitable timing for their international alliance development involve windows of opportunities associated with market and resource benefits to be gained from the co-operation. In addition, partner firms are also forced to rush their cross-border co-operation establishment through the forces from external threats and the insufficient number of eligible and required foreign partners.

The next, fourth, chapter involves the background of the Thai economy and the structure of the country's financial system. Also, the development of cross-border relationships between Thai financial enterprises and their foreign partners is also discussed.

Chapter 4
The Financial System of Thailand
And The Financial Services Industry

This chapter aims to provide the background and structure of Thailand's financial system and general economic conditions from 1960 to 1997. Major types of financial institutions are shown. Also, the financial institutions' functions, characteristics, and influences on the whole economy are described. In the last section, the development of relationships between Thai financial enterprises and their foreign are explained. In particular, their mutual bargaining power and its implications are also discussed here.

4.1 Overview of the Thai economy

Thailand has experienced high and sustained economic growth over the last three decades. The average annual growth rate of GDP was 8 per cent in the 1960s, and nearly 7 per cent in the 1970s, before falling to 4.7 per cent during 1980-86. By 1992, with per capita GDP estimated at nearly US$4,000, Thailand had far surpassed the average of South Asia as well as that of many Latin American countries and it had reduced the gap with its high-performing East Asian neighbours.

In greater detail, the economic performance of Thailand during the 1960s had performed satisfactorily. From table 4.1, economic growth and the inflation rate were approximately 8.1 per cent and 2.2 per cent per annum respectively. Besides, the current account deficit was roughly less than 1 per cent of GDP. The economy in this period was stable due to the favourable international environment. In the 1970s, the Thai economy slightly slowed down with a relatively larger current account deficit of 2.3 per cent of GDP (Table 4.1). In addition, the Thai economy struggled with a series of oil crises during the 1970s. At the beginning of the 1970s, the Thai economy was unstable due to the substantial dependency on international sector. However, during the latter period of the 1970s, Thailand's economic growth reached 8.6 per cent. Yet, the country's current account deficit continued to rise. This was because of the American military base withdrawal, overspending the budget, and the export value decline (Sriaroon, 1993).

After the second oil crisis, the economic performance in the 1980s remained unstable. During the 1980s, the Thai economy confronted two sets of macroeconomic crises: the second oil shock and the global recession. At the beginning of this period, the economic slowdown continued to exist due to the severe impact of inflation and a large current account deficit. Between 1980-1982, the most significant event was a major reduction in import intensity, along with a modest improvement in export market shares. The current account balance improved to a deficit of 2.7 per cent of GDP in 1981 as a result of the baht devaluation and restricted money policy. During 1983-1986 was the period of the Thailand's economic recovery. The contributing factors consisted of the agricultural sector expansion, the world economic recovery, and accelerated domestic investment. By the mid 1980s, the country's external stability was dramatically improved due to a tightened monetary policy. The current account balance was improved to a slight surplus of 0.6 per cent of GDP in 1986.

From 1987 to 1990, the Thai economy was considered prosperous despite the unfavourable external balance and austerity monetary measures. GDP growth averaged 11.7 per cent while inflation was relatively low at 4.4 per cent. Also, there were large increases in both export and import market shares. Both private and public investment continued to increase from the last period. Thailand enjoyed dramatic and double-digit growth, spurred by non-agricultural product expansion and investment demand. The balance of payment recorded a large surplus due to foreign direct investment, which increased more than 500 per cent in 1988.

In the 1990s, the Thai economy began to slightly slow down after the overheating period. The economic growth during the period was satisfactory and the inflation rate was acceptable (Table 4.1). Also, the investment activities, both private and public, continued to substantially increase. However, the major problem in this stage was a huge current account deficit, which averaged at 6 per cent of GDP.

Table 4.1 Key Economic Indicators of Thailand

	1960-69	1970-73	1974-75	1976-80	1981-86	1987-90	1991-93
Real GDP growth	8.1	6.5	4.6	8.0	5.5	11.7	7.8
Inflation	2.21	6.9	14.8	9.9	4.5	4.4	4.5
Current account balance/GDP	-0.94	-1.7	-2.4	-5.4	-4.3	-3.8	-6.3
Investment/GDP	18.1	24.6	26.7	27.1	28.5	34.2	40.9
- Private	13.6	18.2	22.3	19.4	20.1	28.6	33.3
- Public	4.5	6.4	4.4	7.7	8.4	5.5	7.6
National saving/GDP	20.6	22.9	24.3	21.7	24.0	30.3	34.3
- Private	20.5	22.8	22.4	21.0	24.4	26.0	27.1
- Public	0.1	0.1	1.9	0.7	-0.4	4.3	7.2

Sources: Bank of Thailand, several issues

So far, Thailand had also been successful in its economic structure diversification within a relatively short period of time. From the 1970s to the late 1980s, the significant diversification took place in the structure of exports as the various manufactured goods, such as textiles and garments, surpassed rice, the former major export earner. Also, the structure of manufacturing business radically changed from labour-intensive in the past to become capital-intensive manufacturing in the mid-1980s. Thailand's rapid economic growth and structural changes were accompanied by an increasing rate of investment (Table 4.1) (Jansen, 1990). The pattern in the overall investment ratio became a major element in the Thai economy, particularly private investment activities.

4.2 The financial system in Thailand and the development of cross-border relationships

4.2.1 The Thai financial system

The Thai financial system comprises the "organised" and "unorganised" sectors. The organised sector can be defined as legally registered institutions. The unorganised sector involves financial transactions which do not go through organised financial institutions, of which the most prevalent forms of the transactions consist of borrowing and lending among individuals and the rotating credit societies (Warr, 1993). These transactions include the so called "pia-huay", namely rotating credit societies (Sareewiwatthana, 1983).

The organised financial sector is composed of seven major financial institutions: commercial banks; finance, securities, and credit companies; specialised banks; development finance corporations; insurance companies; savings co-operatives; and other mortgage institutions. Most of these organised financial institutions are privately owned, only some belong to the government. The commercial banks comprise the largest component in terms of assets, credit extended, and saving mobilised (Warr, 1993). The second most important group is finance and securities companies, which started their operations in 1962. The specialised banks comprise the Government Saving Bank, the Bank of Agricultural and Agricultural Co-operatives, and the Government Housing Bank. The two development financial institutions are the Industrial Finance Corporation of Thailand and the Small Industries Finance Office. These specialised institutions are either wholly or partly owned by the government. Also, all the organised financial institutions are regulated by the Bank of Thailand.

4.2.1.1 Unorganised Financial Markets

The main activities in the unorganised markets centre on lending to individuals by non-registered credit unions as well as lending and borrowing among individuals. The activities are always characterised by informal agreement, which require little or no collateral on loans. They are based largely on prior business connections and personal relationships. The unorganised financial market exists as a result of huge demand, which could have not been fully responded to by the formal financial system. According to FAIR (1991), the major causes increasing the demand for informal financial markets consist of expeditious access, no collateral required for borrowings, and provisions for unexpected expenditures.

4.2.1.2 Organised Financial Markets

❖ **Commercial Banks**

Commercial Banks seem to dominate the majority of activities in the financial market which absorb roughly three-quarters of all deposits placed with financial institutions. In general, commercial banks provide deposit and lending services, foreign exchanges, and domestic remittance services. As of the end of 1997, there were 15 local (Thai-owned) banks and 14 branches of foreign banks (Table 4.2 and 4.3 respectively). Therefore, the current competitive structure of the banking industry seems to be oligopolistic. Under the protective measures from the Thai government, the major local financial institutions in Thailand, including commercial banks and finance companies have been expanding their scope of operations at impressive rates.

The main activities of commercial banks are centred on deposit taking and money lending. The banks acquire funds through deposits and borrowings from other institutions. The commercial banks maintain three types of deposits: demand deposits, savings deposits, and time deposits. The deposit taking activities have expanded rapidly due to the public confidence in the commercial banking industry although there has not been an official guarantee from the government. The majority of commercial bank funds come from their deposits. Borrowing is the second most important source of funds for Thai commercial banks. Commercial banks can borrow from the Bank of Thailand, from domestic financial institutions, and from foreign banks. Borrowing from foreign banks has constituted more than half of the commercial banks' total borrowings. In particular, since BIBF (Bangkok International Banking Facility) established in March 1993, the amount of foreign capital borrowed has been rapidly increased.

Lending activities of the banks are composed of overdrafts, loans, and discounted bills. Overdrafts are the most popular form of credit extension. Bank loans are the second most popular form of the bank's credit business. At the end of 1996, commercial banks provide their loans to property business (13.6%), trading (27.9%), industrial and agricultural business (31.0%), services (14.9%), and personal consumption (12.6%) (Bank of Thailand, 1997).

Regarding the oligopolistic structure of the industry, all the banks have organised the Thai Banker Association, a cartel-like organisation. Under this association, they collectively determine the standard rate for deposits and loans. This oligopolistic practice responds relatively slowly to market mechanisms and also allows the banks to enjoy high spread of interest. The Bank of Thailand, then, attempts to readjust the situations as well as boosting up the efficiency and competitiveness in the industry by launching a number of important government regulations affecting the financial market.

Table 4.2 Commercial banks incorporated in Thailand

Bank	Year of opening	Origin
Bangkok Bank	1944	Chinese
Krungthai Bank	1966	Government
Thai Farmers Bank	1945	Chinese
The Siam Commercial Bank	1906	Royal Family
Bank of Ayudhya	1945	Chinese
The Thai Military Bank	1957	War veteran
The Siam City Bank	1941	Chinese
First Bangkok City Bank	1934	Chinese
Bangkok Metropolitan Bank	1950	Chinese
The Bangkok Bank of Commerce	1944	Chinese
The Bank of Asia	1939	Chinese
The Union Bank of Bangkok	1949	Chinese
The Thai Danu Bank	1949	Chinese
Nakornthon Bank	1933	Chinese
The Leam Thong Bank	1948	Chinese

- **Source: FAIR (1991) *Financial and Capital Markets in Asia*", Foundation for Advanced Information and Research (FAIR), Japan.**

Table 4.3 Commercial banks incorporated abroad with branches in Thailand

Bank	Nationality	Year of opening
Hong Kong and Shanghai Bank	British	1888
Standard Chartered Bank	British	1894
Indosuez Bank	French	1897
Four Seas Communication Bank	Singapore	1906
Security Pacific Asian Bank	Chinese	1919
Citi Bank	American	1923
Bank of China	Taiwanese	1947
Bharat Overseas Bank	Indian	1947
Bank of America	American	1949
Mitsui Bank	Japanese	1952
Bank of Tokyo	Japanese	1962
Chase Manhattan Bank	American	1964
United Malayan Banking Corporation	Malaysian	1964
Deutsche Bank	German	1978

- **Source: FAIR (1991) *Financial and Capital Markets in Asia*", Foundation for Advanced Information and Research (FAIR), Japan.**

Furthermore, a significant feature of the commercial banking industry is the high degree of concentration in ownership. The ownership of Thai commercial banks has been dominated by 16 families of Chinese origin. The Bank of Thailand also endeavours to diversify bank ownership by forcing the banks to be converted to become public companies and listed on the Stock Exchange of Thailand.

However, after the financial crisis in 1997, the ownership and managerial structures of some of them radically altered. Four commercial banks were taken over by the Bank of Thailand due to serious liquidity and non-performing loan problems. The banks consist of the Siam City Bank, The Bangkok Bank of Commerce, and Bangkok Metropolitan Bank and First Bangkok City Bank. Besides, a small bank, Thai Danu Bank, also sold its major stake to the Development Bank of Singapore because of the same reason.

❖ Finance Companies

Finance companies are relatively new in the Thai financial industry. Finance companies seem to be a peculiar type of financial institutions in Thailand. There are finance companies which specialise in financial services or securities services—or both. Most of them currently specialise in both financial and securities services. Finance companies began operating in 1962 and have increased rapidly in their number since then. This is due to the prosperous business environment and protective measure from the government. The number of finance companies once reached 250 (FAIR, 1991). The Thai government then tried to limit the number and eliminate some questionable companies via tightening the restrictions and imposing a license system. As a result, the number of finance companies in Thailand was 91 companies at the end of November 1997 (Table 4.4).

Table 4.4 List of Finance Companies in Thailand

Names
Adkinson Securities Public Company Limited
Asia Credit Public Company Limited
Asia Finance Syndicate Company Limited **
Asia Securities Trading Public Company Limited
Asset Plus Securities Company Limited
Ayudhaya Investment and Trust Public Company Limited
Bangkok Finance Company Limited **
Bangkok First Investment and Trust Public Company Limited
Bangkok Investment Public Company Limited ***
Bangkok Metropolitan Trust Public Company Limited *
Bara Finance & Securities Company Limited **
BTM Finance & Securities Public Company Limited
Cathay Finance & Securities Public Company Limited **
Cathay Trust Company Limited **
Chao Phraya Finance & Securities Company Limited **
Chatiphaibul Finance Company Limited **

Table 4.4 List of Finance Companies in Thailand (Continued)

Citi Finance and Securities Company Limited.
CL Sahaviriya Finance and Securities Company Limited *
CMIC Finance and Securities Public Company Limited *
Country Finance and Securities Company Limited *
Dhana Siam Finance and Securities Public Company Limited
Dhana Nakorn Finance & Securities Company Limited **
Dynamic Eastern Finance and Securities Public Company Limited *
Eastern Finance & Securities Company Limited
Ekachart Finance and Securities Public Company Limited
Ekkapat Finance & Securities Company Limited **
Finance House Company Limited *
Finance One Public Company Limited *
First Bangkok City Finance & Securities Company Limited **
GCN Finance Company Limited *
General Finance and Securities Public Company Limited *
HSBC Finance & Securities Company Limited
IFCT Finance and Securities Public Company Limited
Inter Credit & Trust Company Limited **
ITF Finance and Securities Public Company Limited *
Jardine Fleming Thanakom Securities Limited
Kiatnakin Finance & Securities Public Company Limited ***
Krung Thai Finance & Securities Company Limited **
Krungthai Thanakit Public Company Limited
KSIT Finance & Securities Company Limited
Lila Finance & Securities Company Limited **
Metropolis Trust & Securities Company Limited **
MG Securities Company Limited.
Muang Thong Trust Company Limited **
Multi-Credit Corporation of Thailand Public Company Limited **
National Finance and Securities Public Company Limited
Nava Dhanakit Finance and Securities Public Company Limited
Nithipat Capital Public Company Limited **
Pacific Finance & Securities Company Limited **
Pattanasin Securities Public Company Limited
Phatra Thanakit Public Company Limited
Poonpipat Finance & Securities Public Company Limited **
Premier Finance and securities Public Company Limited **
Prime Finance and Securities Public Company Limited *
Royal International Finance and Securities Company Limited *
SCB Securities Company Limited
SCF Finance & Securities Public Company Limited **
Seamico Securities Public Company Limited
Securities One Public Company Limited
Siam City Credit Finance & Securities Public Company Limited **
Siam City Syndicate Finance & Securities Public Company Limited **
Siam Commercial Trust Public Company Limited **
SITCA Investment & Securities Public Company Limited **
Sri Dhana Finance Company Limited **

Table 4.4 List of Finance Companies in Thailand (Continued)

Teerachai Trust Corporation Company Limited **
Thai Finance & Securities Company Limited **
Thai Financial Syndicate Public Company Limited **
Thai Financial Trust Public Company Limited *
Thai Fuji Finance and Securities Company Limited *
Thai Investment and Securities Public Company Limited
Thai Overseas Trust Finance & Securities Company Limited **
Thai Rung Reung Finance & Securities Company Limited **
Thai Sakura Finance & Securities Company Limited
Thai Summit Finance & Securities Company Limited
Thai Tanakorn Finance Company Limited **
Thai Thamrong Finance Company Limited **
Thaimex Finance & Securities Company Limited **
Thana One Finance and Securities Public Company Limited *
Thanamass Finance Company Limited **
Thanapol Finance & Securities Company Limited **
Thanasap Finance & Securities Company Limited **
The Book Club Finance & Securities Company Limited
The Ocean Finance & Securities Company Limited
The Siam Sanwa Industrial Credit Public Company Limited
Union Asia Finance Public Company Limited.
Union Finance Company Limited **
Union Securities Company Limited
United Finance Public Company Limited *
United Securities Public Company Limited
Vajira Securities Company Limited
Wall Street Finance & Securities Public Company Limited **

Note: * *companies suspended on June 24, 1997*
** *companies suspended on August 5, 1997*
*** *companies suspended and re-opened on 8 December, 1997*

Unlike commercial banks, finance companies cannot handle deposits, overdrafts, and foreign exchange services. They obtain funds through the issuance of promissory notes or similar instruments and lend these to other persons. The interest rate on finance companies' promissory notes is not subject to any ceiling as bank deposits are obliged to have. Thus, the rate is more attractive and competitive than the commercial banks' deposit rate. However, the lending rates of both banks and finance companies are also regulated by the Bank of Thailand. The most popular form of lending activities of finance companies is in the business and household sectors, followed by other financial institution loans and government bonds.

Most finance companies are granted licences for operating securities businesses, comprising brokerage services, dealership services, financial and investment advisory as well as underwriting services. The securities operations have become increasingly important to finance companies and income from the securities services have been dramatically increased, compared with those of financial business. Therefore, finance companies more emphasise their securities and advisory services as the capital markets, both primary and secondary, have dynamically grown.

As a matter of fact, there has been a close relationship between commercial banks and finance companies in Thailand as commercial banks are the major suppliers of funds for finance companies, contributing approximately 30 per cent of the companies' borrowings. Moreover, most of the finance companies are either partly or mainly owned by commercial banks. With this type of relationship, finance companies seem to be a arm-length of banks and moving towards retail lending as well as professional securities services. Often, finance companies are more profitable ways for credit business as the interest rate ceiling of finance companies' lending is higher than that of commercial banks.

Nonetheless, some strong and large finance companies have requested business privileges similar to those of commercial banks so as to raise up their competitive positions. As the bank of Thailand wishes to strengthen the stability of the Thai financial industry, various incentives have been granted to highly potential finance companies to develop themselves, ranging from a foreign exchange business licence to a banking licence. The finance companies are also encouraged to merge with each other to become a "*Super-Finance Company*". If the group of finance firms is adequately strong and capable, they are able to become a commercial bank. However, in the future, finance companies are prone to focus more on securities and financial advisory services and the credit business would tend to be handled by commercial banks. Therefore, it appears that commercial banks and securities companies will dominate the financial activities in Thailand.

However, after the financial turmoil in Thailand and the Asian region started in the middle of 1997, the various parts of the Thai economy have been negatively affected, particularly the property and finance sectors. As a consequence, there were suspensions of 58 ailing finance companies and only 33 healthy finance firms have operated in the finance industry. The details are discussed in the subsequent section.

4.2.1.3 Capital Market

- **The Stock Exchange of Thailand**

The development of Thai stock market started with the establishment of an unofficial stock exchange in 1953. The market was jointly founded by a group of foreign companies, comprising Houseman & Co., Ltd, Siamerican Securities Ltd., and Z&R Investment and Consultants. Afterwards, Thailand launched its first official stock exchange, namely the Bangkok Stock Exchange Company Limited (BSE), in July 1962 as a private partnership. The stock market had its turnover up to 160 million baht in 1968 and 114 million baht in 1969. However, this market was closed in the early of 1970s due to the lack of corporate owner's interest, a scarcity of potential investors, and inadequate official support (FAIR, 1991). Yet, the Thai Government still wished to foster a capital market so as to supply long-term sources of funds for future economic growth. With technical assistance from abroad, the Securities Exchange of Thailand was established in 1974, under the Securities Exchange of Thailand Act. This second official stock exchange, the Securities Exchange of Thailand (SET), began its operations on April 30, 1975 with 16 listed companies. Under the Securities Exchange Act of 1974, the Securities Exchange of Thailand was regarded as a non-profit organisation consisting of members who are securities companies. The market had performed well and played a significant role in saving and mobilising funds until its progress brought to the surface legislative shortcomings. Thus, the Revised Version of the Securities Exchange of Thailand Act in September 1984 was implemented and used for governing the market.

With regard to the trading systems, the SET has operated fully-computerised trading since May 1991. The "Automated System for the Stock Exchange of Thailand", ASSET, enables trading to be efficient, equitable and liquid. The system can handle up to 600,000 orders a day. There are two trading systems available to broker members, Automatic Order Match (AOM) and Put-Through (PT). The first is Automatic Order Match (AOM) System operates on the basis of automated order matching - members can directly key in their orders from their offices and this data goes online to the SET mainframe computer which will execute transactions according to price and time priority. Transactions are immediately confirmed back to the members' offices. Under the Put-Through (PT) system, brokers conduct their negotiations directly and then confirm the transactions via the SET mainframe.

There is also price regulation determined in the trading systems in the SET. The movement of stock prices is allowed to fluctuate within a range of 10%. Each price move is determined by the prevailing market price of the stock, as it falls within pre-set ranges. The smallest price move is 0.1 baht and the largest is 6.0 baht.

Regarding the dramatic growth of the SET, at the end of its first year of operation, there were just 21 SET-listed companies and total trading turnover was only up to US$60 million. By the end of 1993, total annual turnover had reached US$86.93 billion on a daily average of US$354.83 million. On January 4, 1994, the market opened at an historic high of 1753.73 Index points and the following day recorded its highest-ever daily trading turnover of US$1.6 billion.

The number of listed companies has also grown from the original 21 listed companies to 454 at the end of 1997 and have been joined by 71 unit trusts or mutual funds as well as preferred shares, debentures and warrants of various types - a total of 551 securities. Market capitalisation has recently reached an average current value of US$100 billion. Foreign trading on the SET more than doubled between 1991 and 1992, and has continued to increase to become the majority part of the SET's total trading turnover recently.

❖ **Bangkok Stock Dealing Centre (BSDC)**

The Bangkok Stock Dealing Centre (BSDC) is the first over-the-counter stock market of Thailand. The BSDC was established on October 30, 1995 under the Securities Act B.E. 1992 and started trading on November 14, 1995. The market has 74 finance and securities companies as founder members. It has operated on the basis of a Self Regulatory Organisation (SRO) and non-profit organisation, which is supervised by the Securities and Exchange Commission of Thailand (SEC). The objectives of the BSDC are; to act as a secondary and alternative securities market so as to increase liquidity and promote private investment for the future development of Thailand's capital market; to create opportunities and strengthen confidence among small-and medium-sized growing business entities which need to mobilise funds for their business expansion; and to generate greater saving opportunities for individual investors.

The registered securities in BSDC are small and medium-sized companies, including those which disqualify for being listed in the Stock Exchange of Thailand (SET) but are approved for offering by the SEC. The four types of securities, which can be registered in the BSDC, include common shares, preferred shares, unit trusts, and warrants to purchase common shares, preferred shares or unit trusts. The trading systems of the BSDC consist of two computerised systems in parallel which are the "Automatic Matching System" and the "Dealership System" to ensure that trading will be executed efficiently and bring about liquidity. First, the Automatic Matching System is a system that uses the auction method. Buyers and sellers can offer their prices to the system freely. The orders with the best price are matched first. For buying, the best price is the highest bid price; for selling, the best price is the lowest offer price.

Second, the Dealership System is employed to enhance liquidity, particularly in case of not enough bids and offers in the market. This system starts with negotiation between buyers and sellers outside the Main Board when bid prices and offer prices on the Main Board are significantly different. In negotiation, dealers act as middlemen in order to match deals between buyers and sellers. Dealers can be buyers or sellers in case there are only one-sided offers for trading.

4.2.2 The development of cross-border relationships

Relationships between Thai financial enterprises (TFEs) and foreign partners have been established since the last several decades. Currently, there are a number of cross-border relationships between Thai financial enterprises and their foreign partners as shown in table 4.5. However, the cross-border relationships remain new to TFEs and the Thai economy as the degree of the co-operation was limited at the beginning stage. Further, Thailand, particularly the financial industry, has only recently been significantly exposed to foreign competition. This is due to the forces from the World Trade Organisation (WTO), General Agreement of Tariffs and Trades (GATT) and other international trade agreements. The protective regulations to local markets and industries have been relaxed and lifted.

Foreigners have started to play a more important part in the Thai economy. Cross-border alliances between Thai and foreign firms have been widely employed in order to make a trade off between the risks and returns from investment as well as achieving mutual benefits for both local and foreign firms. This phenomenon has been clearly seen in the financial industry as the industry has become much more internationalised than other business sectors.

Table 4.5 Thai Financial Enterprises and Foreign Partners

Thai Financial Enterprises	**Acronyms**	**Foreign Partners**
.Asia Credit Public Company Limited	ACL	Bank Associated General (France)
Asia Finance Syndicate Company Limited	ASIA	SG Asia Securities (Hong Kong)
Ayudhaya Investment and Trust Public Company Limited	AITCO	Mitsui Bank (Japan)
Bangkok Finance Company Limited	BANGKOK	GE Finance (USA)
Bara Finance & Securities Company Limited	BARA	Hoare Govett (Dutch)
BTM Finance & Securities Public Company Limited	BTM	Bank of Tokyo (Japan)
Pattanasin Securities Public Company Limited	PAT	Nomura Securities (Japan)
Cathay Trust Company Limited	CATHAY	Wardley Securities (Hong Kong)
Chao Phraya Finance & Securities Company Limited	CHAO	Yamaichi Securities (Japan)
Citi Finance and Securities Company Limited.	CITI	Citi Bank (USA)
CL Sahaviriya Finance and Securities Company Limited	CL	Credit Layonnais Bank (France)
CMIC Finance and Securities Public Company Limited	CMIC	Smith New Court Securities (British)
Dhana Siam Finance and Securities Public Company Limited	DS	Baring Securities (British)
Dynamic Eastern Finance and Securities Public Company Limited	DEFT	Crosby Securities (Hong Kong)
Ekachart Finance and Securities Public Company Limited	EKA	James Capel Asia (Hong Kong)
Finance One Public Company Limited	FIN-ONE	Paribas Bank (Canada)
First Asia Securities Public Company Limited	FAS	Asia Equity (Hong Kong)
First Bangkok City Finance & Securities Company Limited	FIRST	Salomon Brother Securities (USA)
General Finance and Securities Public Company Limited	GF	Standard Chartered Securities (USA)
HSBC Finance & Securities Company Limited	HSBC	Hong Kong Bank (Hong Kong)
Jardine Fleming Thanakom Securities Limited	JF	Jardine Fleming Securities (Hong Kong)
Kiatnakin Finance & Securities Public Company Limited	KK	Barclays de Zoete Wedd Securities (British)
Krung Thai Finance & Securities Company Limited	KRUNG THAI	RHB Securities (Malaysia)
Krungthai Thanakit Public Company Limited	KTT	BZW Securities (Hong Kong)
MG Securities Company Limited.	MG	Morgan Grenfell Securities (USA)

Thai Financial Enterprises	Acronyms	Foreign Partners
Multi-Credit Corporation of Thailand Public Company Limited	MCC	Smith New Court Securities (British)
National Finance and Securities Public Companu Limited	NS	Bear Stearns & Co. (USA)
Nava Dhanakit Finance and Securities Public Company Limited	NAVA	W.I. Carr Securities (France)
Nithipat Capital Public Company Limited	NITHIPAT	Fraser Securities (Singapore)
Eastern Finance & Securities Company Limited	EASTERN	Peregrine Brokerage (Hong Kong)
Phatra Thanakit Public Company Limited	PHATRA	Goldman Sachs (USA)
Poonpipat Finance & Securities Public Company Limited	POON	Schroder Securities (British)
Premier Finance and Securities Company Limited	PREMIER	Swiss Bank (Swiss)
Prime Finance and Securities Public Company Limited	PRIME	Chase Manhattan bank (USA)
SCB Securities Company Limited	SCB	Merril lynch (USA)
SCF Finance & Securities Public Company Limited	SCF	World Securities International (Hong Kong)
Seamico Securities Public Company Limited	SEAMICO	Salomon Brother Securities (USA)
Securities One Public Company Limited	S-ONE	Morgan Stanley (USA)
Siam City Credit Finance & Securities Public Company Limited	SCCF	CLSA Securities (Hong Kong)
Siam City Syndicate Finance & Securities Public Company Limited	SIAM CITY	ING Bank (Netherland)
SITCA Investment & Securities Public Company Limited	SITCA	Roll and Ross Asset Management (USA)
Sri Dhana Finance Company Limited	SRIDHANA	DBS Bank (Singapore)
Thai Finance & Securities Company Limited	THAI	Dai Ichi Kangyo (Japan)
Thai Financial Syndicate Public Company Limited	TFS	Mees Pierson Securities (Dutch)
Thai Financial Trust Public Company Limited	TFT	World Securities International (Hong Kong)
Thai Fuji Finance and Securities Company Limited	THAI FUJI	Fuji Bank (Japan)
Thai Investment and Securities Public Company Limited	TISCO	Banker Trust (USA)
Thai Overseas Trust Finance & Securities Company Limited	THAI OVERSEAS	Mitsubishi Bank (Japan)
Thai Rung Reung Finance & Securities Company Limited	THAI RUNG REUNG	Kerry Securities (Hong Kong)
Thai Sakura Finance & Securities Company Limited	THAI SAKURA	Sakura Bank (Japan)
Thana One Finance and Securities Public Company Limited	THANA ONE	Union Bank of Swiss (Swiss)

Thai Financial Enterprises	Acronyms	Foreign Partners
The Book Club Finance & Securities Company Limited	BOOK CLUB	Long Term Credit Bank (Japan)
The Siam Sanwa Industrial Credit Public Company Limited	SICCO	Sanwa Bank (Japan)
Union Asia Finance Public Company Limited.	UAF	Nikko Securities (Japan)
Union Securities Company Limited	UNION	Sun Hung Kai Securities (Hong Kong)
United Securities Public Company Limited	UNITED	Morgan Grenfell (USA)
Wall Street Finance & Securities PCL.	WALL	Kleinwort Benson (British)

According to Beamish and et al (1994), the four major purposes of international joint ventures and alliances are *to strengthen the existing business, to take existing products to foreign markets, to diversify into a new business, and to bring foreign products to local markets* (See figure 4.1). First, firms need to use their cross-border relationships in order to achieve economies of scale and acquire technology in their core business, which will result in their having a stronger business position. Second, firms wish to expand their market scope abroad by taking their products to serve foreign markets. Third, international joint ventures are employed in order to diversify into new lines of business that their partners know well. This is to reduce operational risks associated with unfamiliar business. Finally, firms may regard an international alliance as an attractive way to bring a foreign product to their existing market. This is to help expand the product lines of local partners.

New Market	To take existing products to foreign markets	To diversify into a new business
Existing Market	To strengthen the existing business	To bring foreign products to local markets
	Existing Product	New Product

Figure 4.1 Basic Purposes of International Joint Venture
Source: Beamish and et al (1994), *International Management*, Irwin, P.119

With reference to Beamish's framework, the nature of TFE's international alliances primarily involve two basic purposes, taking existing products to foreign markets as well as bringing foreign products to local markets. TFEs wish to offer their financial services and products, such as local brokerage trading and other financial instruments, to foreign clients via marketing networks of their foreign partners. Further, the cross-border alliances help bring foreign financial services to local customers in the form of cross-border financial projects and international research services. In this respect, both local and foreign partners have to give significant contributions in order to keep the cross-border co-operation running. TFEs offer local market knowledge and distribution channels. Foreign partners provide advanced technology and skills as well as international marketing networks. In greater detail, the alliance relationships are also significantly characterised by the attributes of TFEs themselves and their foreign partners as follows.

Thai financial enterprises: in this respect, it is clear that TFEs are relatively new to foreign operations and competition, compared with their foreign partners. They have hardly experienced cross-border relationships. Also, TFEs are small and less powerful in terms of resources and scope of operations. The operational scope of TFEs is not extensive and sophisticated enough to deal with the demanding needs of foreign and institutional clients. Also, their strategic resources are considered insufficient although they have usually been backed up by their major shareholders, Thai commercial banks. This is because the commercial banks remain local and most of their businesses still focus on domestic markets. Their support then cannot facilitate TFEs' operations at the international level. A request for foreign partners' resources is crucial in this case.

Nonetheless, an important strength of TFEs is their past impressive performance. Before the financial crisis, their profitability was considered the highest, compared with other Thai business sectors. Also, their long-term prospects looked promising. Moreover, TFEs possess plenty of local connections which can be used as a "bridge" to expand operational scope to other high potential business sectors. This also strengthens the bargaining power of TFEs for arranging cross-border collaboration.

As the mutual bargaining power of TFEs and the foreign partners is affected in this respect, both of them can negotiate for their needs in co-operation. The alliances in this case are then geared towards mutual interests and benefits both in the short-run and long-term. Regarding foreign partners, they bargain for higher levels of short-term and long-term compensation. Again, immediate incomes from commissions and fees are emphasised. Profit sharing and ownership control in TFEs in the long-term are expected. This will benefit from TFEs' future growth and the development of their local business base in Thailand.

On the other hand, TFEs endeavour to bargain for better sustainable advantages from alliances in terms of skills, technology, and foreign client base. In this case, TFEs attempt to get involved in various international operations in order to have more exposure to foreign environments and learn international business practices. Approaching foreign clients with foreign partners is also considered important. Further, areas of co-operation are likely to concentrate on securities trading, marketing skills, and research techniques which are needed by TFEs. In addition, long-term alliance co-operation is requested in order to ensure a stable flow of contributions from the foreign partners. This also encourages foreign partners not to switch to other alliances and not to create potential competitors. In this case, mutually exclusive contracts are likely to be required.

Foreign partners: in the case of international alliances of TFEs, it is evident that foreign partners have stronger overall competitive status than TFEs, particularly in international markets. Foreign partners seem superior to TFEs in terms of international experience, reputation, financial resources, research expertise, foreign marketing skills and distribution channels, as well as international business connections. Foreign partners are also more professional in terms of investment strategies and managerial skills. Furthermore, as they have confronted intense international competition, they are more likely to be stronger and able to handle turbulent situations more efficiently. All of these foreign partners' attributes are needed by TFEs. This results in the strong bargaining power of foreign partners.

In this respect, foreign partners' needs and expectations are significantly taken into consideration for alliance development. Again, foreign partners attempt to manipulate the alliance development process in order to achieve greater benefits. Obviously, they usually negotiate for better terms concerning alliance compensation. In the long-term, they are likely to arrange minority equity alliances in order to gain access and control in TFEs. Often, they may form non-equity alliances first and agree on their rights to purchase a stake in TFEs in the future. In the case that foreign partners have high bargaining power, cheaper prices of TFEs' shares are requested. Further, in the short-term, higher immediate compensation, in terms of fees and rebates, are demanded.

With respect to the responsibility of each firm in the co-operation, foreign partners tend not to permit TFEs to be involved in foreign operations, especially direct contact with foreign clients and fund managers. This is to protect the foreign partners' client bases. Furthermore, as they have more bargaining power and are eager to learn about the Thai business culture, they endeavour to interfere in local operations, particularly domestic marketing activities. They are likely to go with TFEs to approach and visit Thai corporate clients. This is aimed at gaining familiarity and recognition from the customers. In addition, if TFEs are far less powerful and in an inferior bargaining position, the alliance agreement is not likely to be mutually exclusive. This is to allow foreign firms to have several local partners and they can emphasise only the most favourable one to achieve their long-term benefits.

Furthermore, the relationships between TFEs and their foreign partners are influenced by the following external factors.

Globalising of the international business environment: the globalising of the international business environment has tremendous impacts on TFEs' alliances with foreign firms. This factor is believed to provide both huge opportunities and significant threats. Evidently, globalisation brings dramatic changes to local industries. In particular, the industries that have exposure to international markets and competition, like the financial industry, are greatly affected. In this respect, the intense competition from outside the country has been brought in. The radical changes in technology of the foreign firms have altered the patterns of the industry's operations. Further, the markets of the industry have become increasingly borderless. Foreign clients have started to take a significant part of the local market. The attitudes and needs of the whole market then have been changed and turned out to be more sophisticated than ever. New world trading orders have also been introduced by major international organisations. This is aimed at liberalising host countries' markets. Tariff and non-tariff protective measures have been lifted. The Thai financial industry then has been increasingly consolidated with international financial markets. All these changes have fiercely threatened all participants in the industry.

Yet, the globalising impacts also increase business opportunities for TFEs. The market size of the industry has been enlarged by the participation of foreign clients. This contributes to the greater potential of TFEs to go international and improve their regional status. However, both opportunities and threats from the international business environment seem to force TFEs to depend heavily on contributions and help from foreign firms. With respect to the globalising factors, foreign partners are likely to gain stronger bargaining power in alliance development. Various terms of co-operative contracts seem to be determined in favour of foreigners. Often, the patterns and forms of cross-border co-operation are developed to result in long-term benefits to foreign firms. The structure of the alliances is likely to allow foreign partners to have profit sharing and managerial control over TFEs. Although, in many cases, TFEs' international alliances are developed as non-equity alliances first, the co-operative contracts usually allow foreign partners to take equity positions in the future. This also increases foreign partners' ownership control over TFEs in the long-term. Further, returns and compensation to foreign partners in the alliances are prone to be higher. Apart from normal benefits and development of the cross-border alliances, TFEs may have to offer greater compensation to foreign partners in the form of managerial fees, advisory fees, and rebates on securities trading.

Globalising factors sometimes force TFEs to accept unfair terms in alliance contracts. This happens to the smaller and less powerful TFEs which show a strong dependency on foreign partners. The major issue in this case involves non-mutually exclusive contracts, which allow foreign partners to tie up with other TFEs. This may result in conflicts of interest between partners and allows the foreign firms to terminate less favourable alliances when the contracts expire. This also increases opportunities for foreign partners to seek more benefits but causes TFEs' unfair conditions in alliance development.

Moreover, from intensive international competition and foreign invasion, TFEs are obliged to enhance their competencies in order to stabilise their competitive positions in the long-term. This is because TFEs cannot completely rely on foreign partners. There is a chance that at any point of time in the future foreign partners may discontinue the co-operation. In this case, agreement on technology and skills transfer is important for cross-border collaboration so as to achieve TFEs' sustainable advantages. However, as the threatening impacts of international environments put foreigners in a favourable negotiation position, it is difficult for TFEs to bargain for a solid and continuous expertise transfer. Therefore, many TFEs often turn to concentrate on immediate benefits and incomes from securities order transfer. This also contributes to the opportunistic character and short-term orientation of TFEs' cross-border alliances.

Regulation factors: although regulations concerning the establishment of TFEs' cross-border relationships sound strict, they are particularly helpful to TFEs, rather than foreign firms. The relevant regulations are designed to protect the interests of TFEs and prevent the domination by foreign partners. Before the financial crisis happened, foreign partners were not permitted to take a majority stake in TFEs. Even in the case of a minority-equity alliance, the regulators, the Securities and Exchange Commission (SEC) and the Bank of Thailand, have to carefully consider and approve it case-by-case. In general, the SEC encourages TFEs to arrange non-equity alliances first and then develop them to become a more intensive form of co-operation in the future. This is to prevent a "false marriage" between TFEs and their foreign partners.

The regulations also stimulate TFEs to realise the importance of long-term and stable technology transfer from alliances. Alliance contracts that obviously overemphasise commissions from securities trading are prone to be reconsidered and disapproved. Also, TFEs are expected to establish long-lasting relationships with foreign partners. TFEs who frequently change partners are cautioned regarding subsequent co-operation and development. Further, as the regulators realise that TFEs are not strong and efficient enough to deal with foreign partners and international competition, merging with each other within the financial industry is strongly encouraged. This is aimed at strengthening the competitiveness of TFEs before confronting foreign exposure from cross-border alliances.

Nevertheless, the regulations and rules associated with cross-border alliances remain outdated and inefficient due to dynamic environmental conditions. Also, international alliances are still new to the whole Thai financial system. It is difficult to eliminate all mistakes resulting from alliance activities. The regulators still have to simultaneously learn, develop, and correct their roles in order to launch regulations suitable for current conditions in the industry.

In this respect, TFEs seem to be protected and empowered by regulation factors. The bargaining power of TFEs and their chances to achieve more alliance benefits is likely to be increased. Conditions in alliance contracts that seem unfair to TFEs will be questioned and are subject to amendments. Guidelines for designing alliance contracts are provided in order to facilitate TFEs in developing co-operation. The major guidelines refer to technology transfer methods, benefits to be offered, and maximum rebates in securities trading. In this case, it is evident that TFEs are encouraged to focus on long-term sustainable advantages from the alliances, rather than short-term and superficial benefits, through moral suasion and law enforcement.

Apart from the benefits to be gained, the regulation factors also have impacts on other aspects of alliances. In this respect, cross-border co-operation is likely to be based on long-term contracts and focuses on areas where TFEs need significant help and improvement, such as research and international marketing skills. The responsibilities of both local and foreign partners are not supposed to be completely divided as TFEs are expected to develop themselves from mutual activities in alliances. Furthermore, TFEs are encouraged to tie up with only one foreign partner in order to reduce conflicts of interest and stabilise their co-operation.

Industry factors: various conditions in the financial industry, especially before the financial crisis, seem positive to all participants. In particular, market demand in the industry has been rapidly growing and offers huge benefits to TFEs. The growth rate and performance of the industry then sounds impressive to local and foreign enterprises. As the financial markets and activities have been enormously expanding, business opportunities to be achieved are not only from financial companies themselves but also from other firms that are prospective clients of the financial industry. These prospective clients wish to raise funds, re-innovate financial structure, and be listed in the stock market. These activities require advisory services from financial companies. This enhances the future potential of the financial industry as a whole. Moreover, the long-term trend of the industry remains promising as the Thai government has granted the industry full support in order to be a leading industry for the prosperity of the Thai economy.

In addition, an abundance of resources and high liquidity in the industry strengthens the status of the industry. Regarding the positive conditions, foreign capital has flown into the industry and created an "easy-money stage". This helps all participants obtain impressive rates of investment returns and attract foreign partners to participate in the industry. However, the industry still lacks qualified human resources who possess international managerial skills and experience of foreign operations. Also, international distribution channels are badly needed by TFEs. Furthermore, local intense competition potentially causes harmful effects to TFEs and potential entrants.

Regarding industry factors, although there are weak points, these factors seem to help TFEs gain a better bargaining power for alliance establishment. As foreign partners are eager to access the industry, TFEs can request better terms in alliance contracts. In this case, they are able to bargain for higher immediate and long-term benefits in terms of volume of securities business, technology transfer, and international marketing channels. Skill training and development programmes for TFEs' staff are demanded. Long-term and extensive ranges of co-operation, including the potential to expand the scope of collaboration, are also requested by TFEs. In the case of powerful TFEs, mutually exclusive alliance contracts are likely to be sought in order to promote sustainable mutual development.

Yet, from the industry factors, foreign partners also play important roles in developing alliances. As TFEs remain in need of help in terms of international expertise, foreign distribution channels, and client bases, foreign partners can exercise their bargaining power in this case. They are likely to ask for immediate marketing benefits in terms of commissions and rebates from foreign client transfer as well as advisory fees for their training programmes. In the long-term, foreign partners' rights to participate more closely in TFEs' operations are also needed in order to guarantee their stable investment returns. Further, the patterns of co-operation should allow foreign partners to be involved in local market activities and to learn Thai business customs.

In conclusion, when all the factors are taken into consideration in portraying the relationships between TFEs and their foreign partners, the alliances are affected and conditioned by their mutual bargaining power as well as other local and international business environmental factors. The major factors include TFEs, foreign partners, and other external factors (See figure 4.2). The bargaining power of foreign partners and TFEs seems to have significant influence on their alliances. In this case, foreign partners possess strengths with respect to international expertise and experience, professional managerial skills, and foreign distribution channels, as well as international reputation and connections. On the other hand, TFEs gain strong favourable bargaining status from their impressive performance, positive prospects of the domestic industry, and their local business networks and databases.

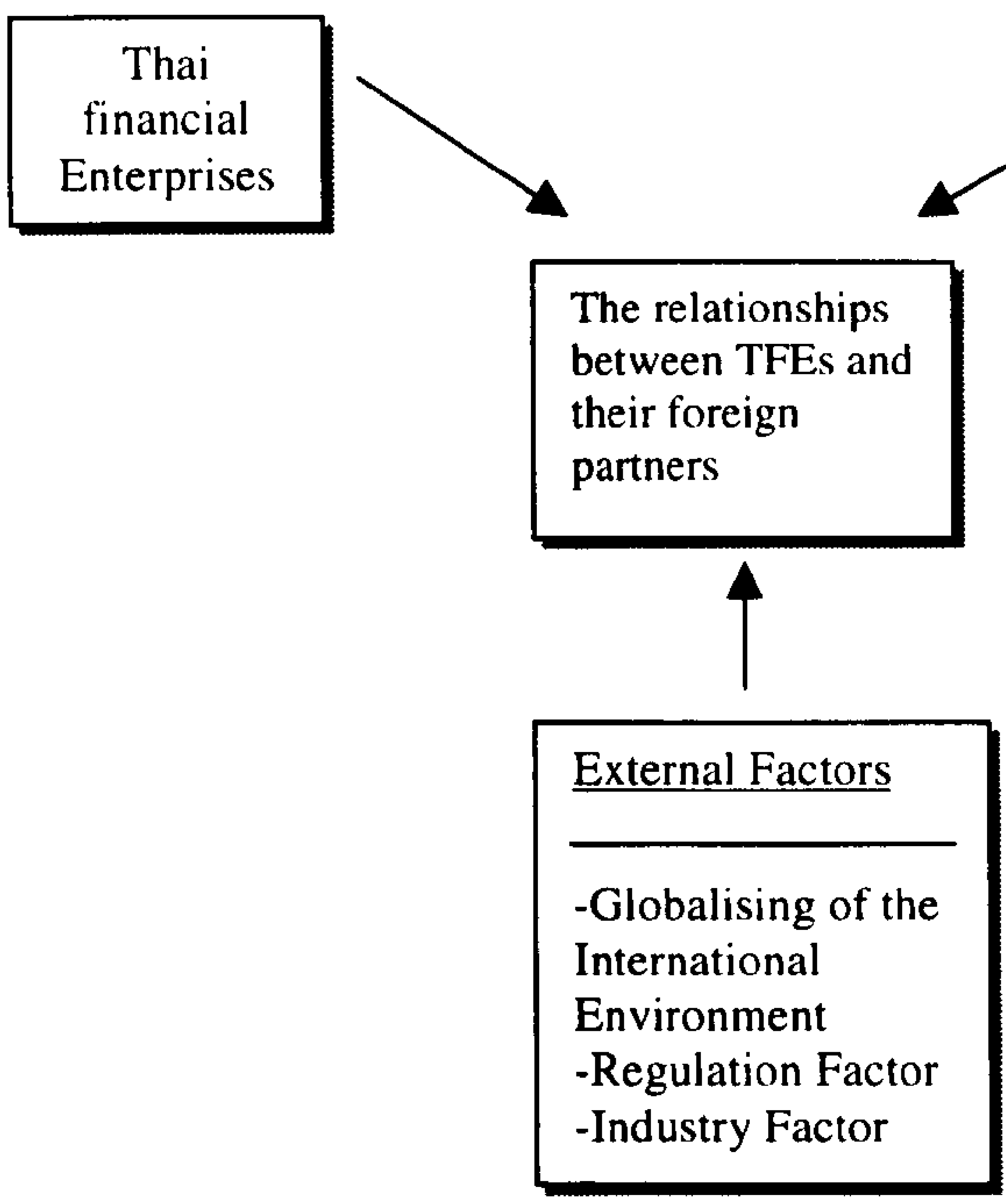


Figure 4.2 The relationships between TFEs and their foreign partners

Resulting from the influences of mutual bargaining power and other environmental conditions, cross-border alliances of TFEs are likely to be minority equity alliance or non-equity alliance with foreign partners' rights to purchase TFEs' stake in the future. This is to ensure long-term access and benefits to the foreign partners and to enhance the sustainable development of TFEs. Areas of co-operation consist mainly of securities operations and trading, marketing co-operation, and research techniques, which reflect the needs of TFEs. These co-operative areas are also important to the firms' performance which leads to mutual benefits for both local and for foreign partners. Further, alliance co-operation is usually not mutually exclusive. However, TFEs and foreign partners are likely to have one partner at a time. This is due primarily to Thai business customs and strict regulations from relevant public organisations.

The responsibilities in the alliances seem to be divided into foreign and domestic operations, handled by foreign partners and TFEs respectively. Yet, in practice, both partners also attempt to interfere with respect to each other's responsibilities. However, TFEs seem to have less access to foreign operations due to their limited professional skills and capabilities. Moreover, alliance co-operation normally provides foreign partners with both short-term and long-term returns in respect of advisory and managerial fees, securities trading rebates, access to local business database and market networks, local footholds, exposure to Thai business cultures, as well as profit sharing and managerial control in TFEs. In return, TFEs obtain benefits from alliances in terms of immediate securities order transfer, commission fees, skills and expertise development, research information and global investment directions, regional-level reputation, exposure to the global business environment, and access to international financial markets. Yet, all of these alliance attributes vary case-by-case, depending on the bargaining power and unique conditions of particular TFEs and their foreign partners.

In conclusion, Thailand is still regarded as an emerging economy. In particular, the Thai finacial industry has been recently developed and remains in need of significant improvement. The cross-border relationships between Thai financial enterprises and their foreign partners are also a strategic device to bring new development into the industry. However, the relationships are still in the beginning stage and require a great deal of adjustment.

The next, fifth, chapter is concerned with research strategies and methods employed in this study. A number of relevant theories and frameworks are taken into thorough consideration in order to identify and adopt the most suitable and reliable research methodology

PART III METHODOLOGY

Chapter 5
Research Strategy and Methodology

The chapter presents various critical discussions on research strategies and methods, particularly in the area associated with international strategic alliances. The first part offers the researcher's viewpoints and opinions related closely to the research strategy and design. The strategy section focuses broadly on research methodologies in respect of the country base of the research, the specific industry of study, and the major context of investigation. The second part discusses in greater detail the research methods deployed in this thesis. The choices of detailed research methods are reviewed and assessed.

5.1 Research Strategy

5.1.1 The country base of study

The fieldwork in Thailand offered several distinctive advantages as follows. First, Thailand is the researcher's home country in which numerous connections, familiarity, and accessibility are considered beneficial in order to gather the necessary information. In particular, the financial industry is the researcher's current area of concentration. The researcher has been involved in several research projects in this area.

Second, Thailand is one of the most impressive emerging economies and has considerable potential to be developed to become one of the world's 25 largest economies, in terms of GDP (Gross Domestic Product), by the year 2000. Although the situation is currently being affected by the financial crisis and economic turmoil spreading over the entire region, Thailand remains ranked 21st among countries in the world, in terms of overall competitiveness, evaluated by the World Economic Forum's Global Competitiveness Report 1998 (Nation, 1998). Therefore, research findings in the country are unique and can represent the picture of highly growing and dynamically changing countries.

Third, the vast majority of the literature and research projects on international strategic alliances are usually focused on the USA and European countries rather than on other regions of the world. Quite often, many actively emerging countries which also have increasingly influenced the world economy, especially South East Asian countries, are less focussed. This is partly due to difficult access to the necessary databases in order to accomplish the research. Fortunately, the researcher possesses sufficient accessibility to such sources of important information. Thus, it is very worthwhile that the findings of ASEAN countries can complete a major part of the literature and provide an additional perspective from a distinctive viewpoint. In the view of these reasons, the researcher has decided to pay close attention to the Thai-based research.

5.1.2 The specific industry of study

In this study, the researcher needs to study in detail the unique and distinctive characteristics of a rapidly changing, dynamically growing, and internationally oriented industry. The reason that the researcher is interested in this type of industry is due to the strong growth of such industries scattered throughout various areas of the world. Moreover, it is very obvious that these actively emerging industries particularly offer strong impacts to the world economy as a whole. Importantly, the international alliance strategy is increasingly deployed by numerous firms competing in such growth industries.

Therefore, the Thai financial industry was chosen as an empirical focus for the following reasons. First, the financial industry was the most dynamic and dominant economic sector of Thailand. In particular, the financial industry had doubled its growth, in value, within the last few decades. Second, the Thai financial industry had given prosperity and contribution to the Thai economy as a whole. Thus, the Thai financial industry had received full support and taken maximum advantage of numerous opportunities, particularly government regulations. Even in the current economic turmoil in Thailand, the financial industry is given the first priority in order to solve problems, regain foreign public confidence, and recover the real sector.

Third, the Thai financial industry is currently in a stage of transformation from a totally domestic viewpoint to a global perspective. Various Thai financial markets had been expanding their operational scope to conform with this change before the financial crisis happened. Fourth, the financial industry has a wide variety of accessible and accurate information sources, compared with the other industries in Thailand. Many organisations related to such an industry can provide data necessary for developing a database to continue further fieldwork. The organisations primarily involve SET (Securities Exchange of Thailand), the Commission of Financial Markets of Thailand, Bank of Thailand, and Ministry of Finance. Moreover, the research divisions of commercial banks and finance companies can also offer useful information. Thus, the established database of the Thai financial industry facilitates the collection and analysis of secondary data.

5.1.3 The specific context of the study

The determination of the specific context of the study is considered. Selecting the appropriate research methods depends on the kind of research problems which are being investigated. Regarding the main context investigated in this research, attention was given to a framework for developing international strategic alliances embracing the underlying need for alliances, the main considerations in partner selection, and the timing of choices of uitable situations for alliance formation.

This research is considered a multi-disciplinary subject which means that core concepts of the research consist of several disciplines. The major disciplines which are focused on in this research involve strategy, international management, and international strategic alliances. Therefore, discussions for selecting appropriate research methods relate closely to the real nature of research in these particular disciplines.

❖ Strategic management context of research

In strategic management research, the only way to obtain an accurate understanding is to observe and elicit the real developing events rather than to focus on questionnaires answered by the respondents. Similarly, Jobber (1991) indicates that a questionnaire survey ought not to be used if the issues needed to be sought are complex and require a deep understanding. Also, Duncan (1979) notes that quantitative methods by themselves probably ignore the detailed processes pertinent to a particular research project. As a result, a real and deep understanding of the research may not be possible. Likewise, Hatten (1979) states that quantitative research methods have had little impact on business policy and strategy research. This is probably due to the nature of strategic management itself, that it is concerned with divergent problems and anticipation of the future. Meanwhile, Smith (1991) argues that case studies are deserving of greater attention as a research method, particularly in the context of management research.

However, various qualitative and inductive approaches appear less frequently in management journals (Bonoma, 1985). The quantitative methods remain popular and important to research in strategic management field. Currently, positivist concepts in management research are dominating, especially in the United States (Smith, 1991). Nevertheless, the positivist research orientations have long been criticised by social science scholars (Silverman, 1985). Being scientific and quantitative does not always result in acceptable research findings. Employing an entire process of the scientific method may not be considered appropriate for conducting management research.

❖ International management context of investigation

Many academics state that international management is still a field that lacks theoretical insights (Ricks, 1993; Miller, 1993; Black and Mendenhall, 1990; Adler, 1983). Besides, the nature of international business involves complicated and sensitive issues. As qualitative methods are considered the most robust way to develop a theory, Wright (1996) suggests using qualitative methods to work on international business research. In particular, qualitative methods allow the researcher to obtain more meaningful data and to increase opportunities to examine and explore the complex, interdependent issues that constitute international management (Wright, 1996). In greater detail, a qualitative approach focuses more on comprehensive, independent, holistic structures which are predictive and dynamic (Wright, 1996). These characteristics can help the researcher better understand complex phenomena in the international arena. Moreover, the benefits of qualitative methods in cross-cultural research are recognised even by scholars in the fields that favour experiments, testing, and statistical analysis.

However, as argued by Boyacigiller and Alder (1991), the majority of research in North American social science is still dominated by rigorous quantitative methods. Survey research, a prominent kind of quantitative research, is probably one of the most commonly used techniques in international management research (Harpaz, 1996). Nonetheless, the nature of research in international studies is more likely to depend upon rich context and explanation. In this respect, various quantitative methods may fail to elicit the complex phenomena which always exist in the international business arena.

In conclusion, from the overall reasons mentioned above, it seems that qualitative methods are more suitable for research in international management. This is because the subject is the nonlinear, interactive, interdependent, and involves complicated phenomena. Qualitative methods can solicit this type of data (Wright, 1996). The major attributes of both quantitative and qualitative methods are illustrated in table 5.1.

Table 5.1 Comparative Analysis of methods in international management research

Quantitative Approach	Qualitative Approach
Independent	Interdependent
Linear	Linear and nonlinear
Cumulative and additive	Multiplicative and interactive
Deriving realities from other realities	Independent measures of the various realities
Deductive	Inductive

Source: Adapted from Kleiner and Okeke (1991), 'Advances in field theory: New approaches and methods in cross-cultural research', *Journal of Cross-Cultural Psychology*

❖ Research methods in international strategic alliances

Methodological orientations in international alliance research seem to favour and be biased towards quantitative methods (Bettis, 1991). Most of the international joint venture studies also overemphasise large-scale mail surveys and tend to use complicated statistical analyses. Consequently, the majority of research projects on international alliance topics published in various management journals are conducted using quantitative research methods.

With reference to this phenomenon, Parkhe (1996) and Wright (1996) argue that "soft" concepts of international joint venture research, such as reciprocity, trust, opportunism, and linking mechanisms cannot be captured and discovered by "hard" data sources involving survey and other quantitative methods. Wright (1996) also indicates that some research topics including the formation of international joint ventures are not suitable for research by quantitative methods. These methods cannot gather all the necessary data and might provide misleading information that should be excluded from the analysis. Further, the current literature on international joint ventures (IJVs) shows that the recent empirical international joint venture research fails to address and contribute to the major concepts of joint venture relationships (Parkhe, 1993). Apparently, the suitable way to complete the literature on such IJV concepts is to deploy research methods which must be powerful and rigorous in generating valid and reliable data in order to thoroughly understand the concepts involved.

As recommended by Parkhe (1996), one of the efficient ways to research IJV topics is case study analysis. He also gives a reason that a case study helps researchers to get closer to the actions of the various lifecycle stages of joint ventures. Besides, the systematic and rigorous analytical methods of case study analysis are well suited for clarifying and probing unclear research questions associated with the IJV management processes (Parkhe, 1996). The main data collection methods of case studies are considered effective. Such a major data collection method for case study development is open-ended interviews (Parkhe, 1996; Yin, 1984). In the interviews, respondents can be asked about the facts of the joint ventures as well as opinions and insights about the cooperative events (Eisenhardt, 1989). The case study method, then, yields rich and subtle understandings and suggests sources of corroboratory evidence (Parkhe, 1996).

Ghauri, Gronhaug, and Kristianslund (1995) also state that the main focus of the case study method is on seeking insights into the objects being investigated in order to obtain sufficient information to characterise and explain the unique features of each case study. Therefore, it is expected that the qualitative case study strategy can help the researcher to obtain sufficient important data, clarify an intriguing framework of international strategic alliances, and provide adequate explanations for behavioural aspects of international alliances.

5.1.4 Conclusion of the research strategy

❖ *Synthesis of quantitative and qualitative approaches*

Regarding all the previous discussion, the majority seems to support the deployment of qualitative research, particularly case studies. However, there are some criticisms of the effectiveness of the case study method. The qualitative method is believed to be inferior to the quantitative method, and that the former seems not to be scientific unless it clearly identifies a hypothesis which can be examined.

Bonoma (1985) refers to a trade-off between "currency" and "data integrity". Currency means generalisability of the research findings. Data integrity refers to the characteristics of the research project that affect the error and bias of research results. As indicated previously, the research results ought to possess both attributes. However, it is apparent that any single method cannot simultaneously obtain data integrity and currency. Employing both quantitative and qualitative methods, which are complementary rather than contradictory (Duncan, 1979), offers a satisfactory level of currency and data integrity.

Notwithstanding some unique strengths of case studies, the case study approach is not adequate to simultaneously meet all the research quality criteria, comprising construct validity, internal validity, external validity, and reliability (Parkhe, 1996). The triangulation of data collected and analysed from multiple research methods enhances accuracy and confidence in the research findings. Naumes (1979) suggests that the two major forms of research, consisting of quantitative and qualitative approaches, are a symbiotic relationship which can provide synergistic results. Moreover, in order to garner more reliable research results, many researchers have advocated a use of both qualitative and quantitative methods (Triandis, 1976; Mcgrath, Martin, and Kulka, 1982; Brewer and Hunter, 1989). Smith (1991) also states that the problems associated with representativeness might be irrelevant if quantitative and qualitative methods are combined to pursue the best of both approaches. In this way, the strengths of each research approach, including qualitative and quantitative methods, can reinforce each other and establish better research results.

In conclusion, in order to improve validity and reliability, this research also employs quantitative research methods to collect specific and definite primary data. The study is made more scientific and generalisable through an intensive questionnaire survey. The questionnaires are distributed throughout the financial industry in order to establish a database in the international alliance formation of Thai financial enterprises (TFEs). With the method, the researcher is able to obtain fundamental data specifically related to international alliance development within the dynamically growing, rapidly changing, and increasingly internationalised industry represented by the Thai financial industry. This database provides general ideas, major concerns, important variables, and reliable literature and also can be a cross examination for qualitative research. Moreover, it helps to promote the generalisability of the research findings from quantitative and qualitative methods.

The analysis of the deployment of both quantitative and qualitative methods is summarised in figure 5.1.

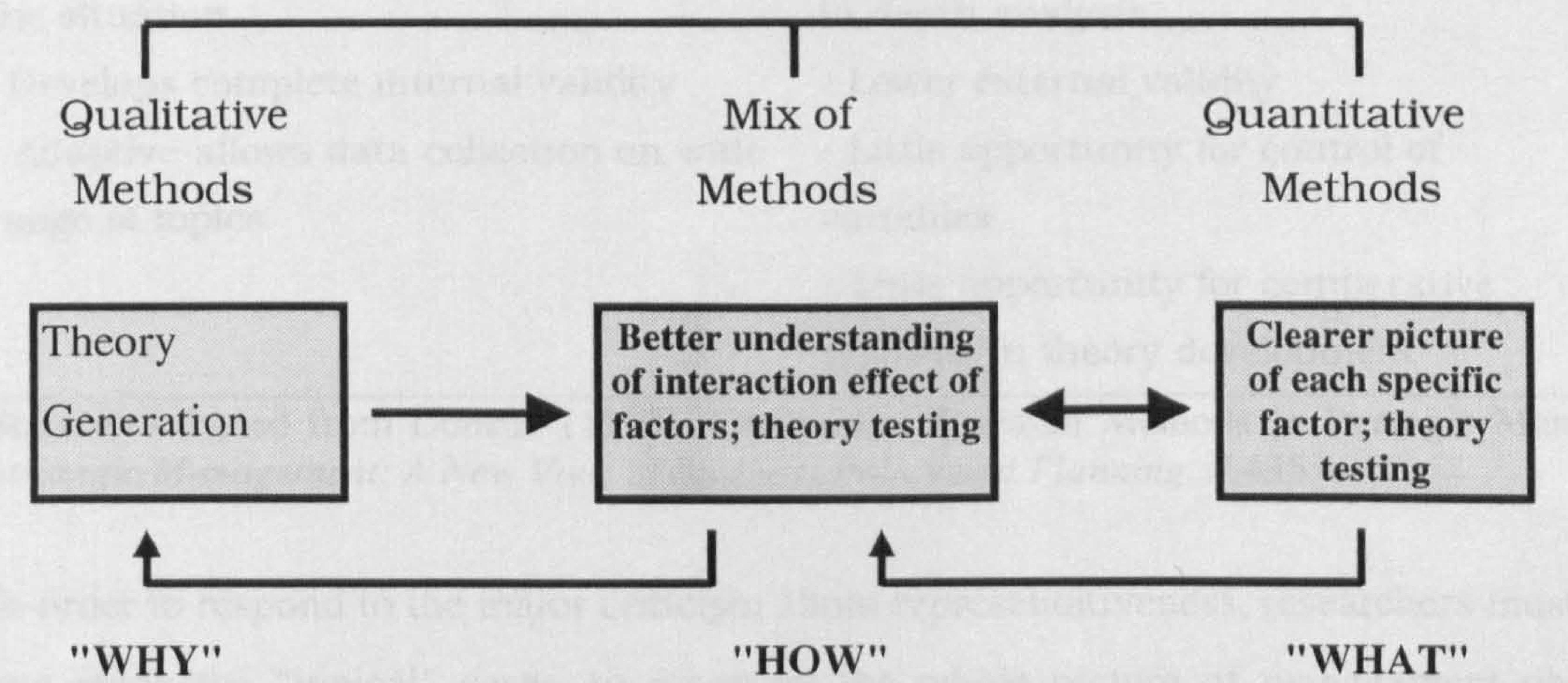


Figure 5.1 Uses of qualitative and quantitative methods in international management research

Source: *Wright (1996), Handbook for International Management Research, P.77*

5.2 Research Methodology

5.2.1 Choices of detailed research methods

Qualitative methods enable researchers to apprehend human behaviour and yield rich and descriptive data for researchers to gain insights into situations more clearly (Bogdan and Taylor, 1975). In this respect, the case study method are used to obtain deep and detailed information on the topics being studied, attain familiarity with the organisation, and become aware of all situations associated with the strategy process (Duncan, 1979). In addition, the important feature of such a method is that such an approach gathers data from multiple sources rather than a single source. (Van Maanen, Dabbs, and Faulkner, 1982).

However, the principal criticism of case study methods is limited generalisability, namely "*representativeness*" (Duncan, 1979; Yin, 1984; Smith, 1991; Wright, 1996). Some scholars note that only one sample of case study analysis may reduce external validity. The case study method is also expensive in terms of the expense, time, and effort of the researcher. Table 5.2 presents the major strengths and weaknesses of case study research.

Table 5.2 An Analysis of the Case Study Approach

Strengths	Weaknesses
- In-depth analysis of the setting	- Expensive for researcher
- Offers opportunity to develop history of the situation	- Can be expensive for subjects to have in depth analysis
- Develops complete internal validity	- Lower external validity
- Adaptive-allows data collection on wide range of topics	- Little opportunity for control of variables
	- Little opportunity for comparative analysis in theory development

Source: Adapted from Duncan (1979), 'Qualitative Research Methods in Strategic Management'. *Strategic Management: A New View of Business Policy and Planning*, P.435.

In order to respond to the major criticism about representativeness, researchers must find out and study the "typical" cases, to represent the whole picture of management phenomena being investigated. Alternatively, such an important weakness of a case study approach is minimised by analysing more than one case and matching cases in terms of major variables (Wright, 1996). Moreover, Worsley and others (1970) argue that the general validity of a case study does not rely solely on the representativeness of the case being studied, but rather on the plausibility of the logical analysis. If a plausible logical analysis of the case study exists, it seems that the case study being investigated is more likely to be "typical". As Michell (1983) indicates:

> *"We infer that the features presented in the case study will be related in a wider population not because the case is representative but because our analysis is unassailable."*
>
> Mitchell, J. C. (1983), "Case and situation analysis", *The Sociological Review*, Vol. 31

From the conclusion of the research strategy discussed earlier, the researcher deployed both qualitative and quantitative approaches in order to gain a synergistic benefit from the two methods. With this research perspective, the researcher also used survey methods to enhance the generalisability of the research resulting from collecting and analysing a large sample.

After deciding to exploit quantitative methods in parallel with the case studies, there are three main methods of survey approaches to be considered. These methods consist of the face-to-face interview, telephone interview, and mail survey (Jobber, 1991).

The face-to-face interview possesses the ability to search for complicated issues and provide maximum flexibility to adjust and vary patterns of interviews depending upon the responses of interviewees (Jobber, 1991). However, it is costly and time-consuming. Alternatively, the telephone interview is considered less flexible and has a time pressure, although this method possesses a certain degree of flexibility and probing. Finally, the last category of survey method, a mail questionnaire, is the most economical and convenient way. However, this method has to be fully structured. The comparison of the three main survey methods is illustrated in table 5.3.

As a consequence, on the basis of resource constraints, the nature of information required, and the survey objectives, the survey methods deployed in this thesis are mail questionnaires supplemented with face-to-face interviews. According to Jobber (1991), the combination of these survey methods can be highly effective.

Table 5.3 A comparison of the three main survey methods

Factor	Face-to-face interview	Telephone interview	Mail Questionnaire
Questionnaire			
- Complex issues	Good	Medium	Poor
- Use of open-ended questions	Good	Medium	Poor
- Flexibility	Good	Medium	Poor
- Ability to probe	Good	Medium	Poor
- Use of visual aids	Good	Poor	Good
Resources			
- Time	Poor	Medium	Good
- Cost	High	Medium	Low
Sampling			
- Widely dispersed populations	Poor	Good	Good
- Delegation to subordinate	Good	Good	Poor
- Response rates	High	Medium	Low
Interviewing			
- Control of respondents	High	High	Low
- Interviewer bias	Possible	Possible	Not possible

Source: Adapted from Jobber, D. (1991), 'Choosing a survey method in management research', *The Management Research Handbook*, P. 178

In greater detail, at first the researcher decided to use quantitative methods to generate fundamental data and general ideas necessary for preparing good qualitative research, the three intensive case studies. This is due to a complete lack of information associated with international strategic alliances in the Indo-China region and South East Asian nations, particularly on the specific type of industry being investigated. Moreover, regarding the specific nature of Thai enterprises, they do not significantly realise the importance of research and seldom allow you to repeat the interviews. Then, it is obligatory for a researcher to well prepare himself for the topic to be interviewed, in terms of background knowledge, research content, and questions. In this respect, the reliable database and background information related to the research issues are imperative for collecting qualitative data.

5.2.1.1 Questionnaire surveys and face-to-face interviews

The fieldwork was from early January 1997 to the end of June 1997. The survey started with a pilot study. The respondents selected for piloting questionnaires comprised 10 academics and financial executives related to the Thai financial industry. The suggestions from the respondents were employed to slightly adjust and alter the content, format, number of questions in the intended questionnaires. This aimed to suit the needs and specific environment in the financial industry in Thailand. The pilot study involved not only distributing the questionnaires to the respondents but also interactively discussing them. This is to balance the researcher's opinions and the respondents' understandings.

After completely revising the questionnaires, the questionnaires, together with covering letters indicating a brief research outline and the general and specific aims of the research, were distributed to 54 Thai financial enterprises (TFEs) which had alliances with foreign financial firms. The questionnaires were not sent by mail due to very low response rates. In contrast, they were distributed through the authority of the managing director or top executive of each TFE. This was because the face-to-face interviews were conducted in parallel with the questionnaire survey. The best possible way in this respect was asking the managing director to refer the names and positions of other executives actively involved in the process of international alliance formation. Also, the managing directors were kindly asked to distribute the questionnaires on the researcher's behalf. The names and positions of respondents were specified clearly on the envelope and covering letters. Every questionnaire issued also had a number on its first page and the number was recorded in order to follow the distributed questionnaires thereafter. These questionnaires were distributed at the rate of approximately 4 copies per one company. This was aimed at acquiring a greater variety of information about attitudes, opinions, beliefs and the behavioural aspects of such issues.

To obtain a high response rate, a reminder system was also deployed. After three weeks of questionnaire distribution, the researcher started to follow the absent questionnaires via telephone to TFEs. Mostly, the researcher phoned managing directors' secretaries who were assigned to handle the questionnaires. The secretaries helped collect and post the responded questionnaires back to the researcher. Sometimes, the researcher had to personally contact the executives to gently ask them regarding the surveys. The latter method was likely to be used when the questionnaires had been missing for over 1 month. All the procedures were designed specifically for researching in Thailand due to the unique research environment in the country. With these methods, the study received a high and satisfactory response rate which was 74.15 per cent (obtaining 152 out of 205 questionnaire issued).

As stated earlier, the face-to-face interviews were arranged with 51 managing directors or high-ranking executives of the TFEs. The interviews lasted approximately 50 minutes per one interviewee. These interviews were aimed at establishing rich and sensible fundamental data to supplement information collected from the questionnaire surveys, in order to obtain clearer and deeper pictures of TFEs' international alliances.

5.2.1.2 Case Study Investigation

❖ Rationale for the Case Studies

In addition to the questionnaire survey, it was decided to conduct a small number of case studies. The case study method was used in order to investigate some aspects of the research in more detail and to discover any new and unexpected perspectives. The further investigation of sensitive issues with respect to the international alliance formation process of TFEs is of vital importance. For example, investigations concerning the strategic thoughts behind the companies' alliance formation, the firms' attitudes towards important issues influencing their cross-border co-operation, and the frameworks of major influencing factors in such a process are added to be more focused. Greater detail and insight into the real motives and underlying needs behind cross-border alliances, the process of seeking foreign partner, the strategic reasons for the use of selection criteria, and the logic behind alliance timing can be obtained. In particular, an attempt to explore the "*black boxes*" in the strategic thinking of TFEs' executives regarding their alliances is imperative for investigating complicated patterns and rationales of their alliance development. All of these aspects can not be efficiently elicited by survey methods alone. The use of case study research as additional research strategies clearly helps accomplish the mission of this study.

Further, much of the information which the researcher intended to gather in this research is confidential. The relatively simple data collection methods, like questionnaire surveys, may not be efficient enough to solicit the needed information. The challenge of this research is to combine quantitative analysis and description with some interesting and more detailed information from the interviews conducted at the case level. The details and implications of the cases are also needed to respond more fully to the research propositions. In this respect, it is evident that case study research is more appropriate. This is because it offers more flexibility and the full advantage of the richness of data in order to obtain more meaningful results. It yields the opportunity to examine the process of international strategic formation of TFEs in detail and to explore complex, more sensitive issues. The method also provides a wealth of examples and stories so as to give readers a fully insightful picture of the issues. Moreover, the case method allows us to better understand the whole process of the international alliance phenomena. This is because case studies are holistic and enable the researcher to see the relation of the parts to the whole and not just as collections of parts (Marshall and Rossman, 1989; inter research). It also enables the researcher to have an appreciation of the "real feelings" of what people personally think about international strategic alliances.

Yin (1986) also suggests that case studies are able to explain the causal links in real-life interventions that are too complex for survey methods, to describe the real-life context in a descriptive mode, and to explore the situations in which the interventions being evaluated has no clear outcomes. The case study method is also employed when the researcher would like to identify factors involved in behavioural aspects in an organisation (Ghauri, Gronhaug, and Kristianslund, 1995).

In addition, the in-depth interviews in the case study research help the researcher to realise and eliminate the possible bias of informants by noticing and considering their behaviours during such interviews. In this instance, the researcher was able to use different approaches to questions in order to deeply solicit real answers, verify ideas, and thoroughly understand the complex issues being investigated. As case research involves many interviews with a cross-section of key people, this then enables varying and complete perspectives from a wide range of organisational key executives. Also, some points considered confidential to the companies are also expected to be obtained in order to completely grasp a complete picture of TFEs' cross-border alliances. These points are very difficult to collect through questionnaire surveys. Furthermore, as it is difficult to obtain the full attention and co-operation from respondents in developing countries, including Thailand, the best techniques for stimulating them to offer full co-operation and to give complete data regarding the critical issues of their firms are by the means of in-depth interviews.

Further, the unique strength of case study research is that it deals with a variety of evidence, documents, artefacts, and interviews. This can encourage the triangulation of a variety sources of data. Through the triangulation, the results and judgements of the research can be improved by a range of different methods of collecting data. In this respect, the validity and accuracy of case study results are ensured as the information collected can be verified and cross-examined with other sorts of information.

Finally, case studies can lead to a range of future research directions. Cases can make a valuable contribution to themes which may be explored. The detailed case study allows the researcher to acquire ideas for future work. Often, it also unearths new issues, insight, and directions in the research focus which can serve as the basis for further work. Moreover, it may lead to significant discoveries that the researcher has not anticipated before. Some points may arise during the in-depth interview process which will help readers to gain a deeper understanding of the issues investigated.

❖ Selection of Case Studies

The three samples of in-depth case analysis were selected. In order to cover a wide range of the whole financial industry, the size of a company, consisting of *large, medium, and small* *segments*, was taken into account to represent major attributes of the firm. The active and typical enterprises of each segment were chosen for in-depth case analyses.

Specifically, the three samples of TFEs selected for representing each segment of TFEs were as follows:

Pathara Dhanakit Finance and Securities Public Company Limited is currently the largest enterprise of all the TFEs. It has also utilised the international alliance strategy as its way to success. It established alliances with Goldman Sachs of the USA., in order to promote mutual benefits in the securities business, to establish joint staff development programmes, and to exchange knowledge bases and expertise on financial business. Moreover, the company had arranged and terminated a cross-border co-operation with S.G. Warburg Securities of Britain prior to the current one.

SCCF Finance and Securities Public Company Limited is an active medium-sized financial enterprises in Thailand. The company has recorded its successful performance and supported by a commercial bank of Thailand, Siam City Bank. International alliance strategy has been recognised as a key success factor for the company during this competitive decade. In 1994, SCCF entered an international strategic linkage with Credit Lyonnais Securities Asia (CLSA), a subsidiary of Credit Lyonnais bank.

Dynamic Eastern Finance Thailand (1991) Public Company Limited is one of the small but active enterprises of TFEs. It has raised its competitive profile from a financially ailing company to one of the most impressive financial companies in Thailand within the last 5 years. One of its most interesting strategies was its co-operation with Crosby Securities, one of the largest institutional stockbroking businesses in the Asian region, in the securities business in 1995.

❖ Interviews

The main primary data collection for the case study is through *in-depth, open-ended interviews*. In this respect, the interviewer has to play a role which is a synthesis of discipline and initiative that is quite difficult to achieve (Morton-Williams, 1993). The interviewer is also required to be strict with himself, with important rules in selecting and asking respondents, as well as using initiative in order to persuade and stimulate the respondents. Therefore, the researcher must be very careful and aware of all questions asked during the interview sessions. Interviews can be divided into two groups.

- Key respondent interviews

In the case of key respondent interviews, the informants primarily involve managing director and high-ranking executives actively involved in the international strategic alliances of the companies, including deputy managing directors, vice presidents or directors of related divisions. In this respect, the desired respondents must possess adequate knowledge and experience in respect of their company's alliance and can offer a wide range of related viewpoints. Each executive officer was interviewed individually in order to enable him to express his opinions freely and without bias. The open-ended interviews were conducted with 4 key top executives in each company in order to obtain interviewees' insights into certain managerial phenomena. The number of informants is not huge because only few high ranking executives can be heavily involved in and thoroughly apprehend the international alliance formation of the companies. On average, the interviews took approximately two hours per informant.

- Special respondent interviews

Special respondents' interviews were conducted with any persons providing interesting information and complementary ideas directly pertinent to the topic being studied. The interviews can offer different viewpoints, opinions, perspectives and thoughts. In this context, managing directors of the TFEs' foreign partners were asked for interviews in order to obtain additional perspectives and strategic thinking of foreign sides.

To obtain complete and accurate information from the various types of interviews, the researcher used either a tape recorder or a note-taking method to record data from each interview. The selection of the preferred recording method depended on the unique situation of each interview. Sometimes, the tape recorder could inhibit some sensitive responses and made the respondent feel uncomfortable. In particular, it is a feature of Thai culture that Thais are usually much more passive than Westerns. Hence, the tape recorder was deployed in possible cases with permissions from respondents.

❖ Multiple Data Sources

A broad range of data sources was utilised in order to obtain a complete picture. The written documents including co-operative contracts, performance reports, annual reports, various financial statements of TFEs, were requested for analysis. Archival records of TFEs such as specific service records, organisation charts, company analysis reports, industry analysis reports, and various government regulations related to alliances, were also investigated. Also, in this study, all participating TFEs assigned either a middle manager or an analyst to contact and provide the researcher with needed documents and information.

In detail, important secondary data of TFEs were also gathered from these following sources: securities exchange of Thailand, the finance companies association, the securities companies association, the securities exchange and commission, the bank of Thailand, Ministry of Finance, commercial banks' research divisions, finance and securities companies' research departments, business journals and newspapers.

❖ Follow-up

As a further step, follow-up interviews were conducted with key informants within the group of executives of each company. This was considered particularly helpful in the sensitive and crucial issues of this study. The additional information gained helped improve the immediacy of the research findings. As this research used a wide variety of data sources and data collection techniques, it was possible to confront the differences in interpretations and assessments of the data collected. In the case of finding significant differences between answers of the respondents from the same company, the follow-up interviews were employed to discover the major causes of such differences.

In this study, telephone interviews were deployed to contact personally some executives as tools for follow-up interviews. These follow-ups helped the researcher to clarify any misunderstandings and solicit reasons for the discrepancies, particularly some critical issues of the case study research.

❖ Accessibility

The steps of creating accessibility to the companies to be investigated were planned from the beginning of the study. In this respect, the researcher deployed his personal and business connections in Chulalongkorn Business School - the researcher's workplace. Chulalongkorn Business School is recognised as the best and most prestigious business school in Thailand. It has firm connections with numerous companies and industries, especially the financial industry. Many professors and lecturers of Chulalongkorn are management consultants and members of boards of directors in various companies. Thus, the researcher was able to use the connections to request access into the target companies. Moreover, the researcher had been invited as a guest lecturer in several financial companies and worked in the financial industry prior to becoming a lecturer. As a result, personal connections and accessibility to the TFEs were established.

The next, sixth, chapter is concerned with empirical results of questionnaire and interview surveys. In particular, the chapter sheds light on origins and motives of TFEs international strategic alliances. Backgroud and underlying needs of the cross-border alliances are discussed in the chapter.

PART IV SURVEY OF INTERNATIONAL STRATEGIC ALLIANCES OF THAI FINANCIAL ENTERPRISES: EMPIRICAL RESULTS

Chapter 6: Origins and Strategic Motives for TFEs' International Alliances: Survey Results*

6.1 Introduction

This chapter is concerned with the background and strategic motives of TFEs' international alliances. The data are gathered through questionnaire and interview surveys as well as being statistically analysed and arranged in a meaningful context. Numerous descriptive and inferential statistical analyses are presented. Also, the rich ideas from the numerous interviews are added, in order to draw a complete framework of conclusions.

The chapter starts with various aspects of the background information on the alliances. Strategic motives of the alliances are of the main focus. Accordingly, the major relationships between the main variables of the research are analysed and discussed so as to give a clear picture of the alliances.

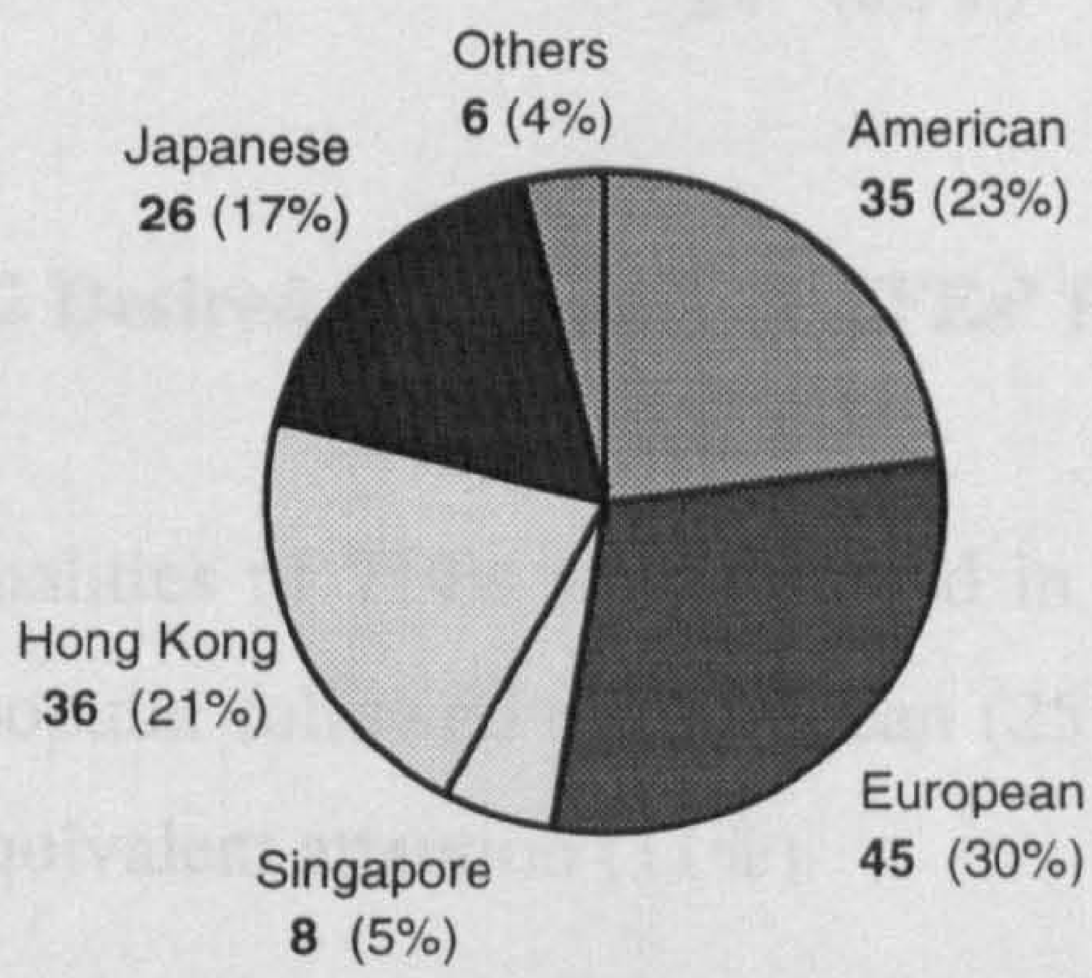
6.2 Background Information on Thai financial enterprises (TFEs) International Alliances

This background of research began with the nationality of TFEs' foreign partners. Figure 6.1 shows the nationalities of the foreign partners with which TFEs had tied up. Apparently, the two most popular foreign partners for TFEs' international alliances were European (30%) and American (23.0%). The European firms included British, Swiss, French, and the Netherlands. The others consisted of Hong Kong (21.0%), Japanese (17.0%), Singapore (5.0%), and others (4%) respectively. Other nationalities comprised Malaysian and Canadian.

****See the full names of the companies referred in this chapter in table 4.5***

The total proportion of all European firms partnering TFEs was 30%, which was the largest. This figure clearly shows us how important the European firms were to the Thai financial industry. Evidently, TFEs' executives had attitudes towards European firms that they were long-term oriented which led to stable co-operation. Moreover, some European financial firms have actively taken part in the Thai financial industry for a few decades. Their long-term investment and conservative strategies were also desirable to TFEs.

On the other hand, American firms were also highly popular due to their advanced technology and potential market power. TFEs' executives believed that advanced research techniques could be transferred from their partners to their staff. Also, they still strongly believed in the potential market demands and abundant capital of American investors.



n = 152

Figure 6.1 Nationality of TFEs' Foreign Partners

Hong Kong and Japanese firms also played important roles in the TFEs' alliances. Most of the Thai executives revealed that this was due to geographical proximity, similar managerial cultures, and the strong intention to participate in the Thai financial industry.

According to the interviews, even though the countries of origin of numerous foreign partners were mainly outside the Asian region, the foreign firms usually contacted TFEs through their branches in the major cities of Asia, such as Hong Kong and Singapore. This was because of their small cultural differences (FIRST BANGKOK, 1997), similar business climate and conditions, as well as proximity to each other (KK, 1997; KTT, 1997).

See the full names of the companies referred in this chapter in table 4.5

Therefore, the majority of contacts and transactions between the partners were concentrated in the Asian continent.

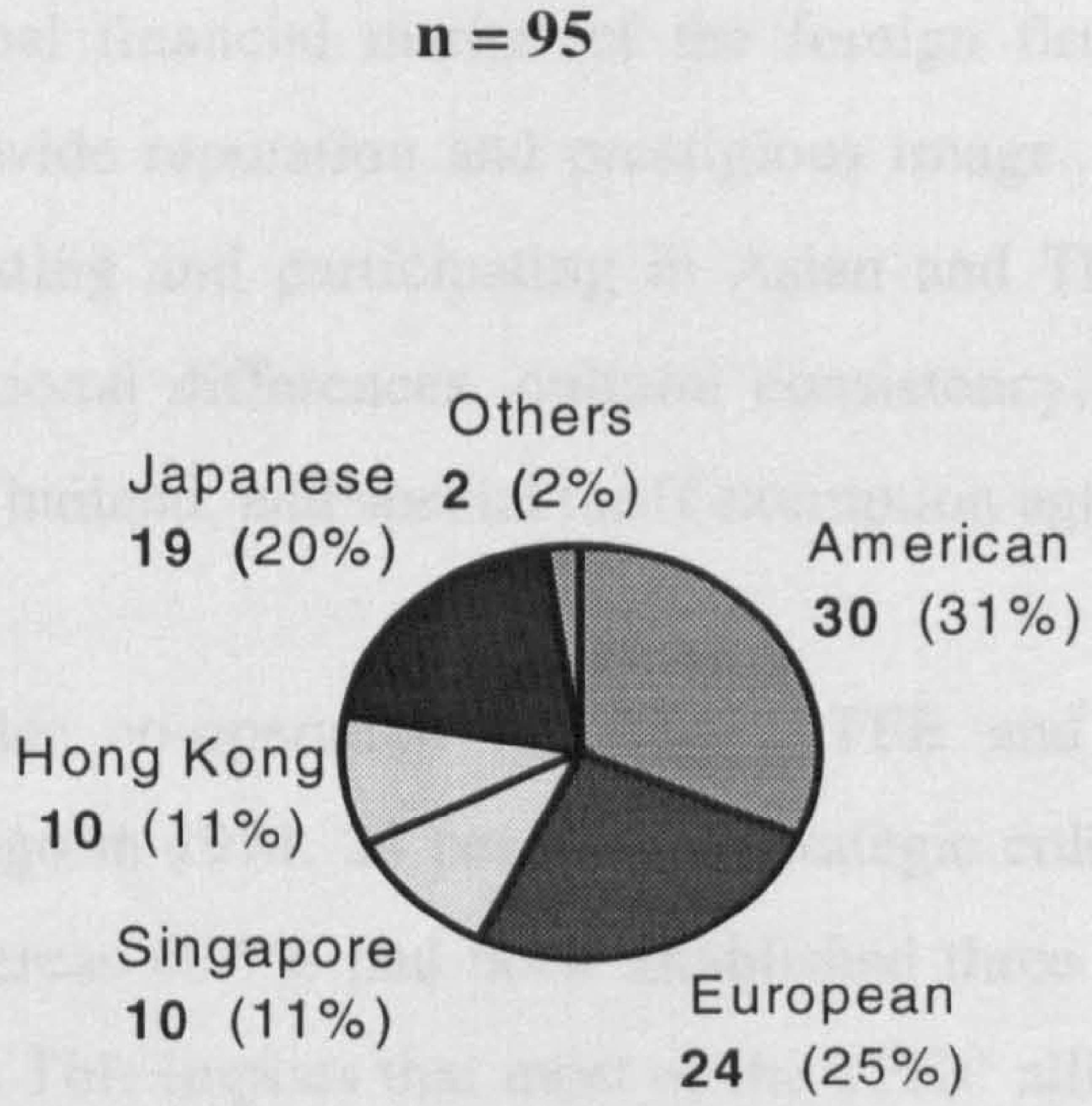


Figure 6.2 Desired Nationality of TFEs' Foreign Partners

The most desirable nationalities of TFEs are presented in figure 6.2. The American house (31%) became the most popular followed by European (25%), Japanese (20%). Hong Kong and Singapore received equivalent attention (11%).

After experiencing cross-border relationships, American houses were the most desirable, this was due to their modernity, competence, and potential market demands. European financial houses were still popular among TFEs which they were considered long-term participants and contributors in the Thai financial markets. Another nationality gaining great recognition was the Japanese. This was because Japanese firms had demonstrated their strong commitment to the Thai financial industry. They had also offered their full co-operation and contributions to Thai partners. The other nationalities received equal interest from TFEs. Hong Kong and Singapore were attractive due to their compatible strategies and comparable bargaining power.

Looking at this issue in greater detail, the other reasons for choosing the nationalities of foreign partners were as follows. Firstly, the nation should demonstrate their strong market

See the full names of the companies referred in this chapter in table 4.5

power in terms of extensive channels of distribution and potential market demand. Secondly, TFEs chose the partners' nationalities by focusing on cutting edge expertise, particularly research techniques. The expertise also included distinctive and long-term experiences in international and global financial market of the foreign firms. Thirdly, the foreign firm should have a world-wide reputation and prestigious image. Fourthly, they had to show a concentration in investing and participating in Asian and Thai markets. The other issues involved small operational differences, cultural consistency, financial stability, long-term investment policy in Thailand, and special tariff exemption agreements between countries.

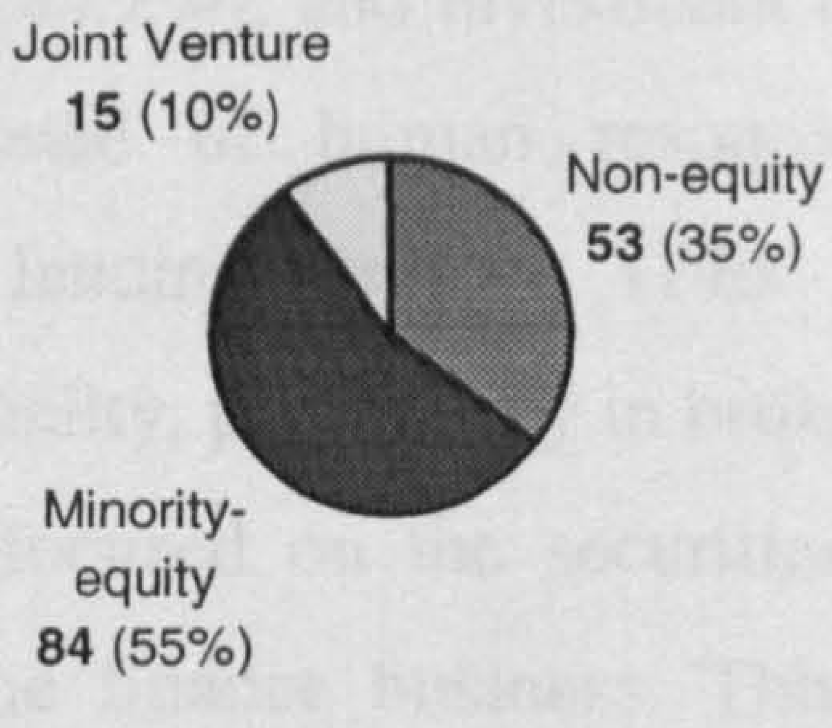
The first cross- border co-operation between a TFE and its foreign counterpart was established 23 years ago in 1974. 24 per cent of strategic collaborations were established 3 years ago or less, whereas 60.7% had been established three to eight years ago and 15.3% more than eight years. This implies that most of the TFEs' alliances were established during 1989 – 1994, which was at a somewhat early stage of cross-border alliance development. The alliances then emphasised planning, configuring, and developing robust collaboration. TFEs' executives put enormous effort into discovering their underlying alliance needs, recruiting eligible partners, negotiating for better terms of contracts, and managing co-operative arrangements (THAI OVERSEAS, 1997; SCF, 1997; and SRI DHANA, 1997).

Yet, some of the alliances had been arranged for more than ten years. Apparently, this group had demonstrated distinctive characteristics. These alliances were prone to have intensive and satisfactory relationships. Most of the TFEs engaged in the alliances informed us that their co-operative performances were very satisfactory and they had never considered termination (AITCO, 1997; JF, 1997; BOOK CLUB, 1997; and TISCO, 1997). They also revealed key success factors in promoting durable co-operation. Firstly, there were expected to be reciprocal contributions in the alliances (JF, 1997; TISCO, 1997). Secondly, as the image and public confidence were of great concern in the financial service business, all partners were subject to strict rules of doing business, in such a way that did not jeopardise one another's reputation (JF, 1997). Finally, the partner firms were not supposed to depend totally upon one another as that might be considered to be a burden on their partners. TFEs had to develop themselves and demonstrate their capability in competing efficiently on their own (TISCO, 1997).

See the full names of the companies referred in this chapter in table 4.5

Regarding types of co-operation, TFEs' international alliances were arranged as non-equity alliances (35 per cent), minority-equity alliances (55 per cent), and joint venture (10 per cent) (See Figure 6.3). The most predominant form of TFEs' international alliances was minority-equity alliances, in which the foreign partners took minor equity positions in TFEs. The main reason behind the equity arrangements referred to more intensive relationships between partners (CATHAY, 1997; SRI DHANA, 1997; EASTERN, 1997; PRIME, 1997). TFEs believed that greater benefits, commitment, and trust potentially resulted from equity links than non-equity ones (SRI DHANA, 1997; EASTERN, 1997; PRIME, 1997). In several cases, the equity-link alliances, in this research, were developed from the forms of non-equity links (PRIME, 1997). This was because TFEs' executives experienced that equity participation in alliances resulted in longer-lasting and more stable co-operation.

Types of TFEs' International Alliances



n = 152

Figure 6.3 Types of TFEs' Alliances

With respect to joint venture agreements, there were only a few TFEs arranging this sort of co-operation (NITHIPAT, 1997; SEAMICO, 1997; KTT, 1997). A huge amount of resources are required to construct a joint venture with foreign partners, and this was a major barrier for TFEs to construct such a relationship (SCB, 1997; CATHAY, 1997; KRUNG THAI, 1997). Mostly, TFEs remained in need of some strategic resources from foreign firms in order to strengthen their competitiveness. Thus, they were unlikely to contribute the resources to new and unpredictable entities at first (SCB, 1997; CATHAY, 1997; FIRST BANGKOK, 1997, TFT, 1997; BANGKOK, 1997). Further, laws and regulations associated with establishing a new financial firm in Thailand were very strict. In general, the Bank of Thailand and SEC (Securities Exchange Commission) encourage TFEs to improve their

****See the full names of the companies referred in this chapter in table 4.5***

competitive positions rather than setting up a new joint venture (SCB, 1997; CATHAY, 1997; FIRST BANGKOK, 1997, TFT, 1997; SRI DHANA, 1997).

Nonetheless, a managing director of Thai Overseas Trust revealed the strengths of joint ventures as follows.

"Arranging co-operation as a new and separate entity was convenient in the process to plan, manage, and control. JVs' board of managerial committee appointed from both partners, was rather free to formulate strategic plans and policies which most suited the unique characters and environment of their firm. At the same time, the negative impacts of cultural shocks were less likely to happen in the newly established firms, even in cross-cultural joint ventures. Additionally, the establishment of JVs with a capable foreign partner was a prudent method of risk diversification as unsystematic risks of a new venture were supposed to be different from those of TFEs". ***(Interview with Mr. Techapaiboon, 1997)***

Figure 6.4 presents major areas of TFEs' cross-border collaboration. TFEs principally co-operated with their foreign counterparts in customer services (89.5%), securities trading (85.5%), research techniques (84.2%), and investment banking (63.8%). The less important types of co-operation consisted of human resource development, funding business, information technology, and lending services. TFEs' alliances were heavily involved in improving customer service quality, particularly in brokerage services. This was because the majority of TFEs' alliances focused on the securities business. There were only a few alliance cases operating in the finance business. This was due to the greater degree of internationalization of TFEs' securities business compared with that of their finance business. TFEs were dealing with a large number of foreign customers in the securities business. Unfortunately, their customer service quality had not been developed to meet the international standard. Thus, collaboration in customer services and securities trading, particularly with foreign and other institutional clients, was of great concern.

See the full names of the companies referred in this chapter in table 4.5

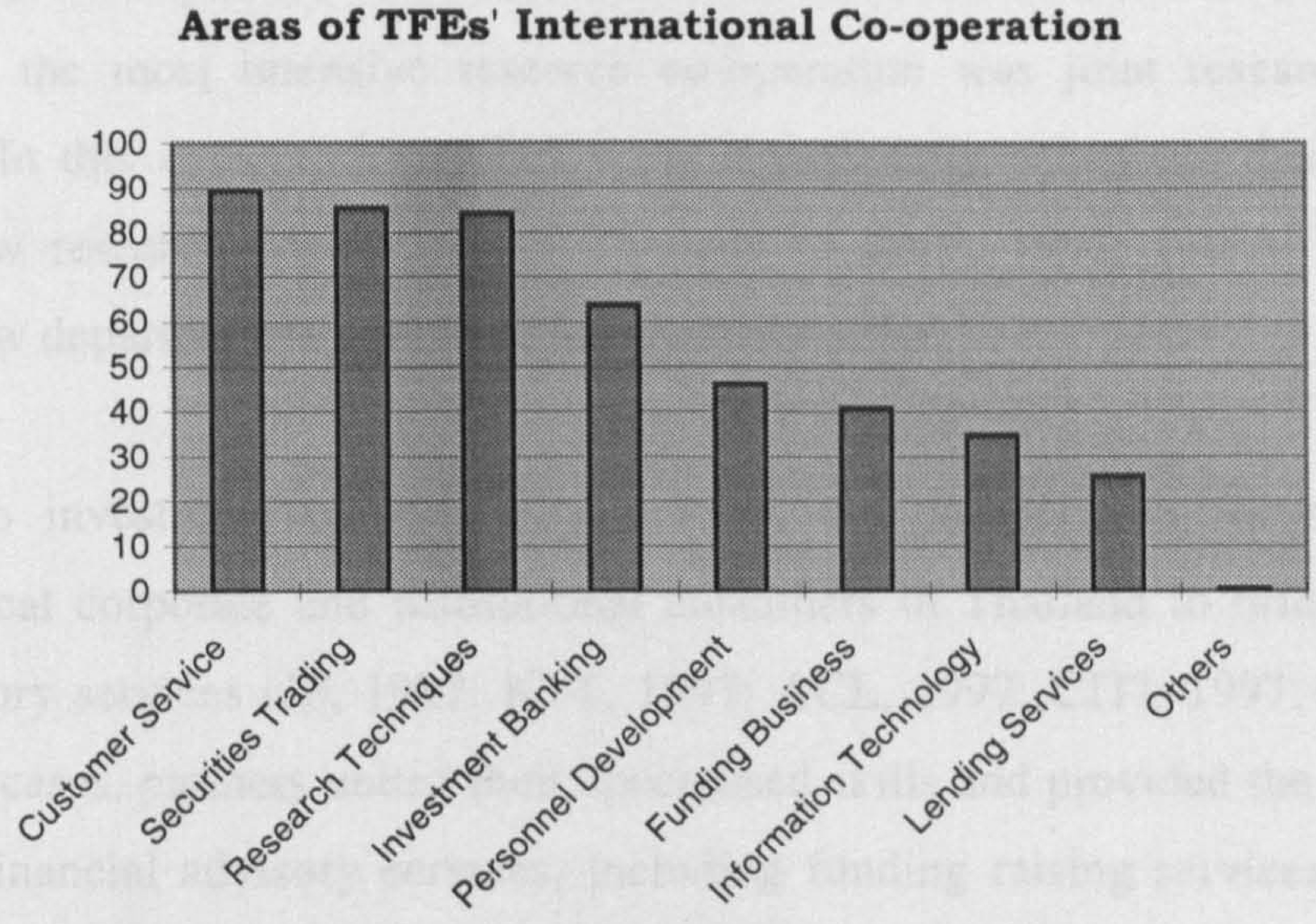


Figure 6.4 Areas of TFEs' International Co-operation

In reality, all co-operations were arranged in parallel with marketing network development. The content of co-operation included referring potential customers to one another, exchanging customer databases between each other, and transferring customer service skills between partners (NITHIPAT, 1997; KRUNG THAI, 1997; KTT, 1997). These activities aimed to promote extensive marketing capabilities of both partners in order to obtain overall solid marketing networks in Thailand and abroad. Many TFEs utilised their foreign partners channels of distribution to penetrate and expand their market base (NITHIPAT, 1997; TFT, 1997; DS, 1997).

Research technique co-operation was of increasing importance as all TFEs generally accepted that their major strategies must be geared towards a research-oriented era. Global directions and international databases for research were also in great need (ACL, 1997; ASIA, 1997; AITCO, 1997). The patterns of such collaboration could be catagorised into three stages. Firstly, all partners operated separately in their own research departments. At the end of the agreed period, normally on a weekly basis, both partners exchanged their research papers as well as discussing with each other the major issues of the research (SEAMICO, 1997; EASTERN, 1997; CATHAY, 1997). Secondly, the most popular form of collaboration was exchanging a firm's researchers between one another. In this respect, the researchers worked closely in their partner's research sites to exchange ideas, information,

**See the full names of the companies referred in this chapter in table 4.5*

and directions of both partners (SICCO, 1997; UNION, 1997; UNITED, 1997; PRIME, 1997). Finally, the most intensive research co-operation was joint research department establishment. In this case, both partners must significantly contribute their resources to construct a new research department in Thailand (S-ONE, 1997; PREMIER, 1997). In practice, the new department was in the Thai partner's office.

With regard to investment banking co-operation, the co-operation focused on jointly approaching local corporate and institutional customers in Thailand to offer them quality financial advisory services (JF, 1997; KTT, 1997: ACL, 1997; CITI, 1997; SRI DHANA, 1997). In most cases, partners united their specialised skills and provided the customer with a package of financial advisory services, including funding raising services, underwriting services, managerial advisory, and financial sponsoring. In practice, the partners divided their responsibilities into *foreign* and *domestic activities*, through which each partner was assigned to take care of their own area (ACL, 1997; PAT, 1997; JF, 1997; NAVA, 1997). However, both partners remained obliged to work closely together in order to ensure overall quality was achieved. Benefit sharing criteria were determined case by case, depending on the effort and bargaining powers of each partner (ACL, 1997; PAT, 1997; JF, 1997; NAVA, 1997).

Other sorts of co-operation, including personnel development, funding business, information technology, and lending services were less emphasised. In many cases, these alliances were consequences of the major co-operation mentioned above.

Interestingly, according to the interviews, the majority of TFEs allied themselves with only one foreign firm. This phenomenon derived from the Thai business custom that Thais were likely to trust and rely entirely on one partner. As a matter of fact, Thai people were extremely conscientious. Therefore, they endeavoured to avoid conflicts of interest among partners and consolidate their relationships. Nonetheless, there were a small number of TFEs engaged in several international relationships. Major reasons behind such alliances were due to different but complementary contributions, for example, funding and expertise, resulting from double cross-border alliances (GF, 1997 ;TISCO, 1997). Extensive geographical dispersion of each partner's markets was also important. According to Nithipat (1997), there were three foreign partners from Hong Kong, Malaysia, and Singapore at the same time due

See the full names of the companies referred in this chapter in table 4.5

to the increase in potential distribution channels to be received. Moreover, it was likely that the other relationships were supported by the existing foreign partners (ACL, 1997; BOOK CLUB, 1997). In this respect, the several relationships with the foreign partners from the same groups were established in order to strengthen the overall relationship. This normally resulted from satisfactory performance of the alliance with the former foreign partner.

With reference to TFEs' executives responding to the questionnaires, table 6.1 presents their involvement in the cross-border alliance formation process. 37.7% of respondents were considered initiators responsible for all planning tasks at the beginning of the alliances. Moreover, 59.7% of these respondents also handled controlling and co-ordinating activities of their alliances. This showed that the group of respondents thoroughly understood all the issues pertinent to alliance formation.

Table 6.1 The involvement of the questionnaire respondents

Roles of Executive	**Initiation**	**Management and Control**
	52 (37.7%)	**86** (62.3%)

Note: n = 138

Other respondents (62.3%) were also involved actively in TFEs' alliances. They had jointly participated in the alliances since the beginning of the process. They remained obliged to manage and monitor the alliance performances. Therefore, the executives were most likely to realise the important matters concerning alliance processes. In conclusion, from the positions and knowledge of the respondents, the accuracy and reliability of primary data collected through questionnaire surveys was ensured.

6.3 Strategy Alternatives to International Alliance of TFEs

Instead of deploying an international strategic alliance strategy, a merger and acquisition (M&A) strategy was regarded as an alternative in this research. I wished to learn the strategic thoughts behind choosing an alliance strategy instead of M&A. The results from the analysis revealed that the "too costly" argument was of the most concern when ignoring M&A (See Table 6.2).

**See the full names of the companies referred in this chapter in table 4.5*

Such a result was consistent with the present stage of development of the Thai financial industry. The majority of TFEs were currently not ready to afford the huge cost of international acquisitions. Furthermore, from their experience, merging two or more firms caused a number of potential problems. For instance, decreased organisational flexibility and entrepreneurial spirit, culture shocks, and possible domination from foreign partners were considered to be the disadvantages of mergers.

Table 6.2 M&A as an Alternative strategy to TFEs' international strategic alliances

Reasons for avoiding M&A strategy	Not at All Important	Least Important	Less Important	More Important	Most Important	Total
Too Costly	**4** (2.6%)	**7** (4.6%)	**24** (15.9%)	**58** (38.4%)	**58** (38.4%)	**151** (100.0%)
Too Slow	**5** (3.3%)	**5** (3.3%)	**46** (30.5%)	**66** (43.7%)	**29** (19.2%)	**151** (100.0%)
Advanced Technology	**4** (2.6%)	**10** (6.6%)	**56** (37.0%)	**58** (38.4%)	**23** (15.3%)	**151** (100.0%)

Note: n = 151

The time spent completing the M&A process, and any technological barriers were also considered important strategic considerations. The levels of importance of these two reasons were somewhat similar (See table 6.2). In greater detail, 62.9% of respondents reckoned that deploying a M&A strategy took too long. Preparing all documentation, handling legal requirements, and allotting ownership control could prolong a M&A process. Detailed negotiations and discussions in crucial issues definitely caused slower progress.

Similarly, the advanced technological requirements of a M&A resulted in the inferiority of M&A to an alliance strategy, according to the opinions of 53.7% of respondents. Also, the more the differences in the level of technology between partners, the greater the potential problems when combining the firms together. The incompatible levels of technology between partnering firms potentially put them in trouble. The partners in cross-border M&A tended to have a huge gap in terms of "technological differences", particularly in the cases of TFEs and their foreign partners.

**See the full names of the companies referred in this chapter in table 4.5*

According to the interviews, the predominant reason to avoid M&A was their limited financial resources (PREMIER, 1997; DS, 1997; UNION, 197; UAF, 1997). They further explained that it was nearly impossible for TFEs to take over foreign financial firms (DS, 1997; UNION, 197; UAF, 1997). At this stage, TFEs remained in a period of dramatic growth and development, through which intense competition and business instabilities usually existed (CATHAY, 1997; S-ONE, 1997; GF, 1997). Though plenty of cash flows ran into the organisation, they were obliged to pay and invest a huge budget in order to survive in such an environment. Consequently, they seldom had adequate financial resources to purchase a major stake in a foreign financial house (GF, 1997; UNION, 1997). Often, they admitted that TFEs' first priority should be given to sustainability and enhancement of their own competitiveness (NAVA, 1997; TFT, 1997). According to managing director of Nava Dhanakit,

"At this stage, the cheap foreign firms that TFEs might be able to potentially acquire were likely to be financially ailing. TFEs, then, were not confident to be able to reverse the foreign firms' positions and regarded this approach as being too risky"

(Interview with managing director of Nava Dhanakit, 1997).

The longer processing duration of cross-border M&A was also of great concern to the TFEs. This resulted from a number of serious points to be negotiated in detail (SCB, 1997; SCF, 1997). The process and procedure of M&A were much more complicated and tedious than those of alliances. In addition, numerous laws and regulations affected the efficiency of the M&A process. These laws remained unclear and restrictive. As the Thai financial industry was considered to be emerging and newly internationalised, most of the policies and laws lacked advancement and completeness (TFS, 1997; KTT, 1997). Simultaneously, Thai financial markets still needed a considerable amount of capital from foreign investors. The permission to invest abroad from the Bank of Thailand must be sought prior to proceeding in a M&A case (TFS, 1997; FAS, 1997). All of the above could prolong the process of M&A.

Further, the majority of TFEs' executives agreed that TFEs were in highly inferior positions in terms of technology and competencies, compared with foreign firms. Thus, it was difficult for TFEs to merge or acquire other superior foreign firms. Moreover, major discrepancies in the level of technology and skills between TFEs and their partners caused potential problems in the case of M&A (THAI RUNG RUANG, 1997; POON, 1997).

See the full names of the companies referred in this chapter in table 4.5

Other reasons why TFEs preferred international alliances to M&A were as follows. Differences in cultural and operational issues negatively affected the performance of M&A cases in relation to alliance cases (CMIC, 1997; EASTERN, 1997). In the case of M&A, two organisations are completely blended and their staff must work together very closely. The likelihood of cultural shock was much greater in the case of M&A (EASTERN, 1997; EKA, 1997). Also, a deputy managing director of MCC finance and securities (1997) revealed that

"Sometimes, TFEs' policies and regulations contradicted the merger with or the acquiring of other foreign companies. This was because shareholders did not want their ownership to be diluted, as well as the intention of avoiding domination and interference by foreigners in their firms."

(Interview with a deputy managing director of MCC, 1997).

TFEs' opinions towards an internal growth strategy, which was another alternative to an alliance, were also interesting. As shown in table 6.3, the most important reason that made an international alliance strategy more preferable than internal growth was the advanced technology requirement. This was because the TFEs could not totally develop advanced and sophisticated financial services, particularly research techniques, by themselves. They still had to purchase and acquire the technology from abroad. Also, developing their technology and competence alone could be comparable to learning from internationally experienced and capable foreign firms (BOOK CLUB, 1997). The image and reputation to be received from alliance with foreign partners were also significant benefits that could not be gained by using an internal growth strategy (JF, 1997; S-One, 1997). However, numerous TFEs still insisted that they employed an international alliance in parallel with an internal growth strategy (SICCO, 1997; TISCO, 1997; THAI, 1997; THAI FUJI, 1997; FAS, 1997; DS, 1997). This meant that they also always developed themselves gradually on their own.

See the full names of the companies referred in this chapter in table 4.5

Table 6.3 Internal Growth Strategy as an Alternative to TFEs' International Strategic Alliances

Reasons for avoiding Internal Growth Strategy	Not at All Important	Least Important	Less Important	More Important	Most Important	Total
Too Costly	2 (1.3%)	4 (2.7%)	24 (16.0%)	62 (41.3%)	58 (38.7%)	150 (100.0%)
Too Slow	3 (2.0%)	3 (2.0%)	28 (18.7%)	63 (42.0%)	53 (35.3%)	150 (100.0%)
Advanced Technology	1 (0.7%)	7 (4.7%)	15 (10.0%)	54 (36.0%)	73 (48.7%)	150 (100.0%)

Note: n = 150

The second reason was that growing by themselves was considered to be extremely resource-consuming, which the TFEs themselves were likely to find unaffordable. On the other hand, the TFEs' executives pointed out that internal growth was also highly time-consuming. Furthermore, it was almost impossible to develop themselves to be internationally competitive in time without any help from more sophisticated firms particularly in a dramatically changing industry like the Thai financial industry. In greater detail, the interviews revealed that developing competitiveness and creating prosperity only by themselves was too costly and too slow. As TFEs were competing in a dynamically changing and highly competitive industry, they are likely to exploit a considerable amount of resources to survive rather than expanding their operations. Plenty of capital should be spent in order to cope with technological and market uncertainties. Very often, the amount of capital and resources required could not be afforded alone by TFEs (EKA, 1997; THAI RUNG RUANG, 1997). Similarly, developing all internal aspects only by themselves was not efficient, due to the limited time frame (SICCO, 1997; THANA ONE, 1997).

Nevertheless, there were several salient cases that TFEs deployed M&A and internal growth strategies as a means to mainly own foreign financial houses. TISCO set up TISCO (Hong Kong) as its subsidiary in the last few years in order to build up and gain foreign customers by itself. This was because the firm did not need to rely on its partner in terms of international marketing networks. On the other hand, Seamico took over Marlin, an international brokerage house, which was a member of the London and Hong Kong stock exchanges, in 1996. This was aimed at acquiring international securities marketing networks

***See the full names of the companies referred in this chapter in table 4.5**

and the advanced research know-how of the firm. Likewise, Nithipat participated in NPV Prebon Yamane, an international money broker, as a passive but substantial shareholder in order to gain greater knowledge and opportunities in the international money markets.

The variables associated with strategy alternatives to international alliances were cross-tabulated by a size variable. ***Size*** of TFEs was classified by total assets of the companies at the end of year 1996. Initially, TFEs were categorised into two groups, "*finance or finance & securities companies*" and "*securities companies*". For the former group, the companies that had total assets over 50,000 million bahts were considered large-sized; from 20,000 to 50,000 million bahts were considered medium-sized; and below 20,000 million bahts were considered small-sized. For the latter group, the securities companies, the companies that had total assets over 5,000 million bahts were considered large-sized; from 2,500 to 5,000 million bahts were considered medium-sized, and below 2,500 million bahts were considered small-sized. The above criteria are also employed by Securities Exchange and Commission of Thailand (SEC).

In this respect, I wished to find out whether a reason in ignoring M&A strategy with respect to "***too costly, too slow, and advanced technology requirement***" was dependent on firm size or not.

The **Chi-square test** and **correlation analysis** were employed to find the significant relationships between the variables. The one-tailed Chi-square test and two-tailed correlation analysis were applied in this study. This was because, *regarding correlation analysis*, the researcher could not predict that the correlation was positive or negative. Thus, the two-tailed correlation analysis was used in order to test whether the correlation is different from zero or not.

According to table 6.4, all the values of the Chi-square statistic occurred in the non-critical region. All the null hypotheses could not be rejected at the 5% level of significance; it was concluded that there was not sufficient evidence to demonstrate a relationship of dependence between the variables (See table 6.4). Thus, TFEs' size did not show a significant impact on TFEs' executives' strategic reasoning associated with choosing an international strategic alliance over an M&A strategy.

See the full names of the companies referred in this chapter in table 4.5

However, in this case, in order to satisfy the Chi-square limitation with respect to an unusually small number of expected frequencies, two categories in this table were combined. The respondents' attitudes towards M&A strategy ranged from 0 to 4, 0=not at all important; 1=least important; 2=less important, 3=more important, and 4=most important. In this case, the two first categories, *not at all important* and *least important*, were combined to increase the number of expected frequencies and meet the criteria of the Chi-square test. This method was applied in table 6.4 and 6.5

Table 6.4 the Chi Square Statistic of Alternative strategy (M&A) variable Cross-Tabulated by Size.

Variable	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
MA 1	Too costly	8.51	0.202	-.20	.013
MA 2	Too slow	0.02	0.769	.02	.769
MA 3	Advanced technology requirement	7.20	0.302	-.09	.247

Notes : n = 151
* significant at 0.05 level
(1). one-tailed test; (2) two-tailed test

Similarly, in order to test for a significant relationship between the reasons for ignoring an internal growth strategy and firm size, table 6.5 demonstrated that there was no significant relationship between the reasons for ignoring internal growth strategy and a size variable at the 5% level of significance.

Table 6.5 the Chi Square Statistic of Alternative strategy (Internal Growth) variable Cross-Tabulated by Size.

Variable	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
MA 5	Too costly	7.63	0.266	-.14	0.07
MA 6	Too slow	4.39	0.623	0.02	0.73
MA 7	Advanced technology requirement	6.76	0.34	-0.15	0.06

Notes : n = 151
* significant at 0.05 level
(1). one-tailed test; (2) two-tailed test

6.4 TFEs' Strategic Motives for International Alliance

6.4.1 Major Motives for International Alliance

Table 6.6 provides us with important and interesting information on TFEs' international alliance motives. Overall, TFEs seemed to pay significant attention to all motives mentioned in the questionnaires. More than 50% of responses indicated that all items were considered either important or most important. However, the TFEs' attitudes towards alliance motives differed on the degree of their importance.

Obviously, the motives receiving the most attention consisted of *acquiring partner's securities customer base* (mean of 3.72), *utilising foreigner's resources for strengthening foreign competitive position in foreign competition* (mean of 3.68), *obtaining partner's competencies for facilitating international operations* (mean of 3.51), *surviving in the intense global competition* (mean of 3.37), *responding to a variety of customers' needs* (mean of 3.34), and *using partner's arm-lengths for a fast international presence* (mean of 3.31).

We explained the above phenomenon by the fact that TFEs were internationalising themselves by utilising their partners' resources associated with marketing networks and channels of distributions. They paid great attention to their partners' foreign securities customer base in order to gain immediate cash inflow. Additionally, TFEs needed their partners to help them gain better competitive standing in the international market. From all the above issues, TFEs actually could not achieve such objectives by themselves. They

See the full names of the companies referred in this chapter in table 4.5

required their partners' solid contributions in terms of extensive foreign client bases, international market networks, and placement power.

Table 6.6 Strategic Motivations of TFEs Alliances

Variables	Motives	Mean	Ranking	t-values of differences	Significance
MT08	8.To acquire partner's securities customer base	**3.72**	**1**		
MT06	6. To utilise foreigner's resources for strengthening competitive position in foreign competition	**3.68**	**2**	**0.71**	**0.477**
MT05	5. To obtain partners' competencies for facilitating international operations	**3.51**	**3**	**3.61***	**0.000***
MT13	13.To survive in the intense global competition	**3.37**	**4**	**1.89***	**0.060***
MT10	10.To respond to a variety of customers' needs	**3.34**	**5**	**0.63**	**0.529**
MT07	7.To use partner's arm-lengths for a fast international presence	**3.31**	**6**	**0.36**	**0.716**
MT09	9.To handle the convergence of customer preferences	**3.28**	**7**	**0.37**	**0.714**
MT12	12.To accelerate new product and service development	**3.22**	**8**	**1.00**	**0.319**
MT11	11 To deal with changes in market demand conditions	**3.04**	**9**	**2.78***	**0.006***
MT14	14.To reduce degree of foreign competition in the industry	**3.04**	**10**	**0.00**	**1.000**
MT18	18.To strengthen a long-term services and resources procurement commitment	**3.02**	**11**	**0.29**	**0.773**
MT19	19.To enable speedy services and resources delivery from foreign partners	**3.01**	**12**	**0.19**	**0.853**
MT01	1.To promote firm's image and reputation	**2.98**	**13**	**0.33**	**0.745**
MT02	2.To learn sophisticated technology	**2.98**	**14**	**0.00**	**1.000**
MT17	17.To ensure quality of services and resources needed	**2.95**	**15**	**0.25**	**0.804**
MT04	4.To enhance marketing capability	**2.92**	**16**	**0.32**	**0.748**
MT16	16.To pre-empt the rise of potential rivals	**2.80**	**17**	**1.17**	**0.243**
MT03	3.To achieve cost competitive edge	**2.76**	**18**	**0.36**	**0.717**
MT15	15.To reduce the number of existing competitors	**2.74**	**19**	**0.13**	**0.897**

Notes : n = 152
* significant at 0.05 level of significance (One-Tailed Test)

See the full names of the companies referred in this chapter in table 4.5

On the other hand, the rest of the strategic motives of TFEs' alliances such as *handling the convergence of customer preferences* (mean of 3.28), *accelerating new service and product development* (mean of 3.22), *dealing with changes in market demand conditions* (mean of 3.04) *and other motives* (See Table 6.6) were similar in their importance.

The majority of TFEs wished to contend with dynamically changing and varied customer needs. Numerous TFEs partnered foreign companies because they needed to respond better to customer demands. In this respect, the advanced marketing skills of partners were expected to be learnt by TFEs. This helped TFEs to smooth market demands and faster develop innovative services. TFEs also needed to establish alliances in order to cope with the intense competition in the industry. TFEs' alliances aimed to *reduce degree of foreign competition in the industry.* In this respect, TFEs attempted to change either potential or existing rivals into partners and to avoid unnecessary competition. This was because most TFEs realised that their competitive positions were inferior to those of foreign houses.

Similarly, more than half of the respondents expected stable contributions from their foreign partners so as to continue their current level of operations. In this respect, TFEs' alliances aimed *to strengthen a long-term service and resource procurement commitment from foreign partners* and *to enable speedy services and resources delivery from foreign partners.* For these reasons, TFEs expected to strengthen relationships with foreign firms as the firms could provide them with services, expertise, and information in order to utilise them for continuing the companies' operations. In reality, TFEs tried to tie up with their service suppliers more closely and formally in order to ascertain the level of mutual contributions. Also, TFEs sought to improve their competitive competencies in order to strengthen their market position and to expand market scope. Via the alliances, the firms wished *to promote firm's image and reputation, to learn sophisticated technology,* and *to enhance marketing capability.*

In brief, most of the TFEs' alliance motives, rated by their executives, were of similar importance. As shown by "*t values of differences*" (See Table 6.6), these values were used to test for significant differences between the means of two motives next to each other.

See the full names of the companies referred in this chapter in table 4.5

In this respect, the t-test of significant differences between two means was employed. The one-tailed test was applied because the direction of the test had been specified. Therefore, the hypotheses involved; Ho: there is no difference between the mean of higher-ranked motive and the mean of lower-ranked motive. Ha: the mean of higher-ranked motive is greater than the mean of lower-ranked motive.

The critical value in this case was 1.645 (One-tailed test and 0.05 level of significance). Thus, t-values greater than 1.645 fell into the critical region and the researcher rejected Ho and accepted Ha. There were only three pairs of motives that were significantly different in their scores at the 0.05 level of significance (See Table 6.6). These motives were as follows; the motives associated with **1)** *utilising foreigner's resources for strengthening competitive positions in foreign competition* (MT06) and *obtaining partner's competencies for facilitating international operations* (MT05); **2)** *obtaining partners' competencies for facilitating international operations* (MT05) and *surviving in the intense global competition* (MT13); as well as **3)** *accelerating new service and product development* (MT12) and *dealing with changes in market demand conditions* (MT11). The rest of the motives did not show significant differences in their scores (See Table 6.6).

On the other hand, in order to respond to the major research propositions, the researcher divided all the motive variables into five groups based on theoretical perspectives from the literature survey (See chapter 4 for more details). These groups were illustrated as follows.

- The first group of motives associated with the ***market-defensive*** motives which relate closely to **competitive uncertainty**, including motive variables 13-16.

- The second group of motives associated with the ***market-defensive*** motives which relate closely to **demand uncertainty**, including motive variables 9-12.

- The third group of motives associated with the ***resource-defensive*** motives, including motive variables 17-19.

- The fourth group of motives associated with the ***market-offensive*** motives, including motive variables 1-4.

-The fifth group of motives associated with the ***resource-offensive*** motives, including motive variables 5-8.

See the full names of the companies referred in this chapter in table 4.5

From the groups of variables shown above, the researcher constructed five propositions in respect of each group. The first hypothesis involves market-defensive motives in respect of "dealing with competitive uncertainty". The hypothesis in this category is H_1o: *Market-defensive motives with respect to dealing with competitive uncertainties do not stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.* H_1a: *Market-defensive motives with respect to dealing with competitive uncertainties stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

Prior to analysing a multi-item variable, the reliability and internal consistency were of vital concern. In this research, the researcher calculated Cronbach's alphas, namely coefficient alphas or reliability coefficient in order to ensure the reliability capabilities of all multi-item variables. Values of the reliability coefficients indicated correlation of various items in each variable. According to Nunnally (1967), a multi-item variable receiving a value 0.7 over is considered very reliable.

As table 6.7 illustrates with empirical results, the vast majority of TFEs' executives paid great attention to all alliance motives associated with competitive uncertainties. TFEs were encouraged to adopt alliances in order to reduce competitive risks emerging from fierce domestic and global competition. TFEs attempted to turn major rivals into friendly partners. In this respect, the first null hypothesis is rejected and the alternative one is accepted. That is, market-defensive motives with respect to dealing with competitive uncertainties stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.

Table 6.7 Market-Defensive Motives associated with Competitive Uncertainties

TFE's	Least Important		Less Important		Important		Most Important		Means
Alliance Motives	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	
13.To survive in the intense competition	**2** (1.3%)	**2** (1.3%)	**9** (5.9%)	**11** (7.2%)	**71** (46.7%)	**88** (53.9%)	**70** (46.1%)	**152** (100.0%)	**3.37**
14.To reduce degree of foreign competition in the industry	**3** (2.0%)	**3** (2.0%)	**23** (15.1%)	**26** (17.1%)	**91** (59.9%)	**117** (77.0%)	**35** (23.0%)	**152** (100.0%)	**3.04**
15.To reduce the number of existing of competitors	**7** (4.6%)	**7** (4.6%)	**37** (24.3%)	**44** (28.9%)	**96** (63.2%)	**140** (92.1%)	**12** (7.9%)	**152** (100.0%)	**2.74**
16.To pre-empt the rise of potential rivals	**10** (6.6%)	**10** (6.6%)	**32** (21.1%)	**42** (27.7%)	**89** (58.6%)	**131** (86.3%)	**21** (13.7%)	**152** (100.0%)	**2.80**
Reliability Coefficient	**0.75**								

Note: n = 152

In this respect, TFEs' alliances were frequently aimed at reducing and easing the problems resulting from fierce competition (FIRST BANGKOK; 1997, CATHAY, 1997; BARA, 1997). They wished to stabilise their competitive marketing position by engaging in alliances with powerful foreign partners. TFEs' cross-border alliances were also regarded as strategic devices to prepare themselves for intense global competition in the very near future (FAS, 1997; EASTERN, 1997). Quite often, TFEs' executives gave the reason that they constructed alliances in order to correct their struggling situations and to survive in the difficult market conditions (EASTERN, 1997; BARA, 1997).

In some cases, TFEs were required to immediately boost up their market shares to comply with the regulation of the SET which stated that all stock brokers must maintain their market shares at the level of at least 0.5% of the total market volume (POON, 1997). As a consequence, the TFEs had to arrange alliances with the partners which could help them to compete with other TFEs in maintaining their market shares (POON, 1997). Often, TFEs' international alliances were aimed at turning potential foreign rivals into strategic partners (TFS, 1997; SCB, 1997). This was because TFEs realised that they could not afford the losses and damage from competing with powerful foreign financial firms (SICCO, 1997). This was also regarded as reducing the degree of competition from foreign countries. Many

See the full names of the companies referred in this chapter in table 4.5

TFEs were still aware of being eliminated from the industry if they were confronting instead of partnering the foreign firms (EASTERN, 1997; SICCO, 1997).

However, there were TFEs that did not significantly focus on ***the market-defensive motives associated with competitive uncertainties***. Some of them believed that they were favoured and protected by government regulations as foreign financial firms found it difficult to invade the Thai financial industry (KTT, 1997; S-ONE, 1997; DS, 1997). Likewise, the foreign financial firms did not have solid knowledge bases associated with local Thai customers in terms of behaviour, preferences, purchasing patterns, and locations (KTT, 1997; S-ONE, 1997; DS, 1997). Moreover, the foreign firms were not familiar with business customs and the ways of contacting business in Thailand, which relied mainly on personal relationships, confidence, and connections (KTT, 1997; S-ONE, 1997; DS, 1997). Under these circumstances, TFEs believed that the foreign firms could not easily access the Thai financial markets (BANGKOK, 1997; JF, 1997).

The second hypothesis involved is H_2o: *Market-defensive motives with respect to dealing with demand uncertainties do not stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.* H_2a*: Market-defensive motives with respect to dealing with demand uncertainties stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

From table 6.8, the second multi-item variable analysis also revealed that all motives in this variable were significant for TFEs' alliance decisions. In this respect, the second null hypothesis is rejected and the alternative one is accepted. That is, *market-defensive motives with respect to dealing with demand uncertainties stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.* TFEs' executives wished to alleviate the negative impact of demand uncertainties resulting from great swings of market demand conditions and changes in customers' behaviour and purchasing patterns. Allying themselves with capable foreign partners was believed to help with better response to the TFEs' changing customer needs. This could help TFEs to defend their positions in the market from such demand uncertainties.

***See the full names of the companies referred in this chapter in table 4.5**

From the interviews, TFE's executives believed that various contributions from their foreign partners could help them to solve their problems about customer services. According to SCB (1997),

*"The TFEs' customers were increasingly sophisticated and demanded better services in terms of higher return on investment, effective advisory services, cheaper sources of funding. Therefore, it was extremely difficult for TFEs to advance their market ability by themselves in order to provide their customers with complicated and internationally accepted services." **(Interview with managing director of SCB securities, 1997).***

Moreover, TFEs must deal more with large, foreign, and institutional customers which possessed greater bargaining powers (SCB, 1997; NAVA, 1997). In this respect, TFEs were obliged to make enormous efforts to serve their clients. Thus, they were required to find foreign partners to help cope with such situations.

In addition, the structures of the market demand in the Thai financial industry had been dramatically changed. Apparently, there was a higher proportion of foreign participation in the markets than ever before. Alliances with foreign partners were one of the ways necessary to recoup TFEs' market shares (FAS, 1997; EASTERN, 1997; THAI RUNG RUANG, 1997). As the local demands of Thai clients were fluctuating and somewhat unpredictable, TFEs' foreign partners helped smooth the level of TFEs' incomes by supplying more stable and longer-term orders from foreign customers (EKA, 1997). Furthermore, TFEs' international alliances strengthened their negotiating powers with both local and foreign institutional clients, such as asset management companies and insurance companies, since more value-added services were offered (SCB, 1997).

In contrast, some TFEs were confident in their current marketing statuses and did not need to rely upon their partners (JF, 1997; FIN-ONE, 1997). They also enjoyed their financial health and benefits in the Thai financial markets and did not want to share the wealth with foreign partners (DS, 1997; KTT, 1997). Further, some of them considered that they had been facing considerable uncertainties and they were already prepared to encounter them from the beginning (JF, 1997; DS, 1997; KTT, 1997; FIN-ONE, 1997). Therefore, they did not need to make alliances because of this reason.

See the full names of the companies referred in this chapter in table 4.5

Table 6.8 Market-Defensive Motives related to dealing with Demand Uncertainties

TFE's Alliance Motives	Least Important		Less Important		Important		Most Important		Means
	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	
9.To handle the convergence of customer preferences	**0** (0.0%)	**0** (0.0%)	**10** (6.6%)	**10** (6.6%)	**89** (58.6%)	**99** (65.2%)	**53** (34.8%)	**152** (100.0%)	**3.28**
10.To respond to a variety of customers' needs	**2** (1.3%)	**2** (1.3%)	**4** (2.6%)	**6** (3.9%)	**87** (57.2%)	**93** (61.1%)	**59** (38.9%)	**152** (100.0%)	**3.34**
11. To deal with changes in market demand conditions	**2** (1.35%)	**2** (1.35%)	**23** (15.1%)	**25** (16.4%)	**94** (61.8%)	**119** (78.2%)	**33** (21.8%)	**152** (100.0%)	**3.04**
12.To accelerate new product and service development	**1** (0.7%)	**1** (0.7%)	**13** (8.6%)	**14** (9.3%)	**89** (58.6%)	**103** (67.9%)	**49** (32.1%)	**152** (100.0%)	**3.22**
Reliability Coefficient	**0.52**								

Note: n = 152

Table 6.9 presents ***resource-defensive motives*** of TFEs' cross-border alliances. The hypothesis involved is *H_3o: resource-defensive motives do not stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

H_3a: resource-defensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners. Likewise, the majority of respondents stressed the importance of the motives. That is, TFEs remained in significant need of partner direct contributions and resources in order to continue and stabilise their operations. This was because a number of TFEs were still small and lacking resources necessary for offering standard financial services. The immediate and stable transfer of resources from their foreign partners was expected from collaboration. TFEs still wished to ensure quality and reliable services from as well as to strengthen long-term procurement contracts with foreign partners. Therefore, the third null hypothesis is rejected and the alternative one is accepted. That is, *resource-defensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

Table 6.9 Resource-Defensive Motives of TFEs' Alliances

TFE's Alliance Motives	Least Important		Less Important		Important		Most Important		Means
	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	
17.To ensure quality of services and resources needed	**5** (3.3%)	**5** (3.3%)	**26** (17.1%)	**31** (20.4%)	**92** (60.5%)	**123** (80.9%)	**29** (19.1%)	**152** (100.0%)	**2.95**
18.To strengthen a long-term service and resource procurement commitment	**3** (2.0%)	**3** (2.0%)	**20** (13.2%)	**23** (15.2%)	**100** (63.8%)	**123** (79.0%)	**29** (21.0%)	**152** (100.0%)	**3.02**
19.To enable speedy services and resources delivery from foreign partners	**2** (1.3%)	**2** (1.3%)	**25** (16.4%)	**27** (17.7%)	**94** (61.9%)	**121** (79.6%)	**31** (20.4%)	**152** (100.0%)	**3.01**
Reliability Coefficient	**0.84**								

Note: n = 152

The empirical data from the interviews also affirmed that TFEs' executives agreed that their alliances were aimed at reducing supply chain uncertainties and ensuring their required resources inflow. They also needed to strengthen the long-term commitment between partners in order to provide them with the stable requirement of resources and services (WALL, 1997; UNION, 1997). This was because of the transition period in the Thai economy. Apart from the economic factors, government and political instability resulted in uncertain regulations and directions for development (EKA, 1997). Frequent alterations in both supportive and restrictive policies also caused inaccurate TFEs' strategic decision making, for example, the rules that requested TFEs to completely split their finance and securities operations (EASTERN, 1997). Such a rule had been revised and its direction had been changed, which caused a negative impact to TFEs (EKA, 1997; PRIME, 1997). These factors forced TFEs to need more resources in order to survive in the industry. In this respect, they did not intend to advance their operational capability but attempted to acquire the necessary resources in order to first maintain their status (HSBC, 1997; PRIME, 1997; FIRST BANGKOK, 1997).

**See the full names of the companies referred in this chapter in table 4.5*

Moreover, the quality of resources obtained was likely to be satisfactory under formal alliance contracts (AITCO, 1997). Speedy and timely technical services and assistance from their partners were also of vital concern when establishing alliances (WALL, 1997; AITCO, 1997). The majority of them believed that the alliance contracts could offer more favourable benefits than the simple buyer-seller relationships. The requests for services and resources through partnership agreements were more possible than those through buyer-seller relationships as long as the satisfactory relationships were maintained. In other words, TFEs' alliances fostered integrity and trust with the foreign firms, and led to the advancement of strategic co-operation.

In this case, TFEs wanted to receive major services and resources from their foreign partners (PRIME, 1997; FIRST BANGKOK, 1997). Furthermore, the transfer of investment banking personnel from alliances was required to stabilise the level of TFEs' operations (EKA, 1997; CATHAY, 1997; SEAMICO, 1997). Financial resources were also in great demand (THAI OVERSEAS, 1997). Additionally, other fundamental technical assistance from foreign financial firms stimulated TFEs to arrange alliances (THAI OVERSEAS, 1997; FAS, 1997).

Apparently, there were many TFEs that did not focus on the **resource-defensive motives.** They insisted that they were more concerned with offensive motives due to the prosperous business environment (FIN-ONE, 1997; GF, 1997). From such environmental conditions, they were able to survive on their own (KTT, 1997; JF, 1997). They also realised that they were strong enough to acquire the necessary resources by themselves (FIN-ONE, 1997; GF, 1997). Some of them further explained that they did not want to depend much on their partners' resources and to be a burden on their partners (Bangkok Fin, 1997; ASIA, 1997). Moreover, in this case, the TFEs' executives considered that the **resource-defensive** alliance motives would jeopardise the alliance development thereafter. Also, some of them reckoned that their alliances should be developed only after they could survive on their own (BARA, 1997; ASIA, 1997; SEAMICO, 1997). Thus, they did not want their alliances to base entirely on the partners' resources. Moreover, they suggested that TFEs' alliances ought to be driven by offensive motives. The defensive motives should be regarded as by-products (FIN-ONE, 1997; SCF, 1997).

See the full names of the companies referred in this chapter in table 4.5

The fourth hypothesis involved is *H_4o: market-offensive motives do not stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners. H_4a: market-offensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.* The variables involved in the category are shown in table 6.10.

Table 6.10 Market-Offensive Motives of TFEs' Alliances

TFE's Alliance Motives	Least Important		Less Important		Important		Most Important		Means
	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	
1.To promote firm's image and reputation	**13** (8.6%)	**13** (8.6%)	**32** (21.0%)	**45** (29.6%)	**52** (34.2%)	**97** (63.8%)	**55** (36.2%)	**152** (100.0%)	**2.98**
2.To learn sophisticated technology	**16** (10.5%)	**16** (10.5%)	**31** (20.4%)	**47** (30.9%)	**45** (29.6%)	**92** (60.5%)	**60** (39.5%)	**152** (100.0%)	**2.98**
3.To achieve cost competitive edge	**22** (14.5%)	**22** (14.5%)	**36** (23.7%)	**58** (38.2%)	**51** (33.6%)	**109** (71.8%)	**43** (28.2%)	**152** (100.0%)	**2.76**
4.To enhance marketing capability	**18** (11.8%)	**18** (11.8%)	**32** (21.1%)	**50** (32.9%)	**46** (30.3%)	**96** (63.2%)	**56** (36.8%)	**152** (100.0%)	**2.92**
Reliability Coefficient	**0.94**								

Note: n = 152

From table 6.10, all the variables associated with the market-offensive motives were regarded as important or very important motives by the majority of TFEs' executives. In short, collaborative advantages, to be gained by making international alliances, in order to raise up the competitive market status and expand the scope of market, significantly stimulated TFEs' executives to develop such alliances. Thus, the fourth null hypothesis is rejected and the alternative one is accepted. That is, *market-offensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

In the interviews, they also stated that TFEs' alliances were driven by such motives because they needed to improve their competitiveness in the markets and to expand their market scope. In this respect, TFEs' executives aimed to learn sophisticated skills, knowledge, and various competencies from their cross-border co-operation. In addition, improved image for

See the full names of the companies referred in this chapter in table 4.5

the TFEs from collaborating with prestigious foreign firms were expected (S-ONE, 1997; DS, 1997; THAI OVERSEAS, 1997). The TFEs that emphasised these motives focused on their long-term competitiveness in their markets. Their international alliances aimed to develop their operational skills and raise their competitive profiles in the markets (DS, 1997; NITHIPAT, 1997; TISCO, 1997) and to strengthen their marketing positions (UNITED, 1997; ASIA, 1997). In particular, the specific area that was of most concern involved the research department (S-ONE, 1997; DS, 1997).

Many times, the TFEs had revealed that they were not ready for success in the international markets at this time, and they needed to employ international alliances to gradually develop themselves (KK, 1997; NITHIPAT, 1997, NAVA, 1997).

However, there were some TFEs that were not significantly concerned with such ***market offensive motives***. They did not need to employ an international alliance as a device to enhance their competitiveness in the market. They believed that transfer of knowledge in the financial service industry was not as complicated as that in the manufacturing industry (KTT, 1997; PAT, 1997). They were willing to hire capable researchers from foreign firms to be in charge of their research and training departments instead of arranging alliances just for this purpose (KTT, 1997; PAT, 1997; SCF, 1997). Often, TFEs focused more on immediate and short-term benefits, such as cash inflows from foreign securities orders, rather than long-term sustainability from their alliances (CMIC, 1997; EKA, 1997). In some cases, they accepted that they were not well developed enough to absorb and learn expertise from foreign partners (SIAM CITY, 1997).

The fifth hypothesis involved is; *$H_{5}o$: resource-offensive motives do not stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners. $H_{5}a$: resource-offensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.* The results of this category are illustrated in table 6.11.

The reliability coefficient of this multi-item variable was also high (.66) and Mohair and Spekman (1994) would still accept this type of variable in the analysis. Obviously, all

See the full names of the companies referred in this chapter in table 4.5

motives in the category were of vital importance (See Table 6.11). This was because TFEs were currently demonstrating the strong intention to internationalise themselves via the resources and contributions from foreign partners. This was because TFEs remained inferior to foreign financial firms in terms of capability, technology, market networks, customer service quality and other strategic resources. Hence, one of the most recognised ways was to pursue such required resources and competencies via cross-borer alliances. Consequently, from the empirical data, the fifth null hypothesis is rejected and the alternative one is accepted. That is, *resource-offensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

Table 6.11 Resource-Offensive Motives of TFEs' Alliances

TFE's	**Least Important**		**Less Important**		**Important**		**Most Important**		**Means**
Alliance Motives	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	
5. To obtain partners' competencies for facilitating international operations	**0** (0.0%)	**0** (0.0%)	**6** (3.9%)	**6** (3.9%)	**62** (40.8%)	**68** (44.7%)	**84** (55.3%)	**152** (100.0%)	**3.51**
6. To utilise foreigner's resources for strengthening competitive position in foreign competition	**0** (0.0%)	**0** (0.0%)	**5** (3.3%)	**5** (3.3%)	**38** (25.0%)	**43** (28.3%)	**109** (71.7%)	**152** (100.0%)	**3.68**
7.To use partner's arm-lengths for a fast international presence	**0** (0.0%)	**0** (0.0%)	**15** (9.9%)	**15** (9.9%)	**75** (49.3%)	**90** (59.2%)	**62** (40.8%)	**152** (100.0%)	**3.31**
8.To acquire partner's securities customer base	**0** (0.0%)	**0** (0.0%)	**6** (3.9%)	**6** (3.9%)	**31** (20.4%)	**37** (2 %)	**115** (75.7%)	**152** (100.0%)	**3.72**
Reliability Coefficient	**0.66**								

Note: n= 152

According to the interviews, TFEs' executives accepted that they were optimistic due to the past impressive performance of the Thai financial industry. The industry had been growing for decades before they decided to make alliances. Such a phenomenon urged TFEs to focus on potential returns rather than risks and behave opportunistically when establishing cross-border alliances (ASIA, 1997, BOOK CLUB, 1997; UAF, 1997; SEAMICO, 1997). In this respect, they chiefly expected to obtain and exploit the international and regional marketing

See the full names of the companies referred in this chapter in table 4.5

networks of their partners (ASIA, 1997; KTT, 1997; KRUNG THAI, 1997; SCF, 1997; MCC, 1997). Almost all of them greatly wished to acquire greater foreign customers and gain incremental benefits from these customers. Quite often, they regarded these resources as their strategic weapons in getting more exposed to international markets (SRI DHANA, 1997; UNION, 1997; UNITED, 1997).

The majority of TFEs accepted that their international alliances were aimed at restructuring the income structures of their firms. In addition, they attempted to adjust their firms' income structure to rely more on foreign customers, as there was increasing foreign participation in Thai financial markets (SRI DHANA, 1997; UNION, 1997; SIAM CITY, 1997). In this respect, the international marketing networks of the foreign partners offered immediate benefits to TFEs. TFEs' executives agreed that the resources received from alliances contributed positive cash flows to their organisations in terms of commission fees from foreign securities orders and service fees from various foreign corporate finance cases. Further, the channels in international financing of the foreign partners were greatly needed in order to gain greater access to foreign financial markets and raise fund aboard (SRI DHANA, 1997; UNION, 1997; SIAM CITY, 1997; KTT, 1997; Ds, 1997).

Apparently, these strong motives for TFEs' alliances came from the unique characteristics of their top executives. As revealed that

"most of the executives had major things in common. That is, they were all relatively young, compared to those of other industries. Moreover, all of them were highly educated and awarded at least a Master's degree from abroad. They were also considered the new generation of the Thai economy as a whole. These attributed to their managerial characteristics in terms of aggressiveness, confidence, and flexibility. In addition, as their performances had been considered satisfactory and successful, their strategic perspectives were likely to be more optimistic and opportunistic."

(Interview with assistant managing director of DS, 1997)

On the contrary, some of the TFEs' executives admited that they did not entirely focus on the ***resource-offensive motives.*** This was because they remained inefficient in domestic competition and could not utilise international resources of foreign partners (BARA, 1997; KK, 1997). Some of them intended to avoid conflict with their foreign partners through ignoring the major foreign clients of their partners (SCF, 1997; SCB; 1997). Meanwhile,

****See the full names of the companies referred in this chapter in table 4.5***

many of them stated that they paid most attention to local customers and let their partners deal with foreign and international clients (EASTERN, 1997; FAS, 1997).

6.4.2 Relationships between Strategic Motives and Other Variables

The relationships between TFEs' motives and firm size were also tested. By using Chi Square statistics, the TFEs' alliance motives were cross-tabulated by a size variable as indicated earlier. The Chi Square statistics resulting from the test of independence are presented in table 6.12. The details of the test was previously mentioned in table 6.4.

In this case, in order to satisfy the Chi-square limitation with respect to an unusually small number of expected frequencies, two categories in this table were combined. The respondents' attitudes towards alliance motives ranged from 1 to 4, 1=least important; 2=less important, 3=more important, and 4=most important. In this case, the two first categories, *least important and less important*, of some variables including MT9, 10, 11, 12, 13, 14, 17, 18, and 19 were combined to increase the number of expected frequencies and meet the criteria of the Chi-square test. This method was also applied in table 6.12 and 6.13.

With a significance level of 0.05, the observed Chi Square statistics falling in the critical region were as follows. The first motive significantly related to a size variable was *promoting firm's image and reputation*. It was concluded that there was a relationship of dependence between such a motive and firm size. That is, TFEs' size had a strong impact on such a motive. In addition, the Pearson's correlation coefficient is 0.60 which is positively correlated. The researcher inferred that larger TFEs were more likely to emphasise a motive associated with promoting the firm's image and reputation when establishing a cross-border alliance.

See the full names of the companies referred in this chapter in table 4.5

Table 6.12

the Chi Square Statistic of Motive Variables Cross-Tabulated by Size.

Variable	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
MT 1	1.To promote firm's image and reputation	90.83	.000*	.60	.000*
MT 2	2.To learn sophisticated technology	72.55	.000*	.57	.000*
MT 3	3. To achieve cost competitive edge	72.82	.000*	.59	.000*
MT 4	4.To enhance marketing capability	51.92	.000*	.52	.000*
MT 5	5. To obtain partners' competencies for facilitating international operations	10.29	.035*	.24	.002*
MT 6	6. To utilise foreigner's resources for strengthening competitive position in foreign competition	4.16	.384	.14	.077
MT 7	7.To use partner's arm-lengths for a fast international presence	16.74	.002*	.28	.000*
MT 8	8.To acquire partner's securities customer base	5.04	.282	.10	.199
MT 9	9.To handle the convergence of customer preferences	5.06	.280	-.05	.485
MT10	10.To respond to a variety of customers' needs	4.76	.312	-.12	0.12
MT11	11.To deal with changes in market demand conditions	2.04	.727	-.00	.974
MT12	12.To accelerate new product and service development	2.23	.693	.03	.665
MT13	13.To survive in the intense global competition	2.67	.613	-.03	.676
MT14	14.To reduce degree of foreign competition in the industry	4.43	.349	-.10	.188
MT15	15.To reduce the number of existing competitors	12.06	.060	-.15	.055
MT16	16.To pre-empt the rise of potential rivals	16.45	.011*	-.24	.002*
MT17	17.To ensure quality of services and resources needed	2.67	.0.617	-0.12	.124
MT18	18.To strengthen a long-term service and resource procurement commitment	3.46	.483	-.07	.372
MT19	19.To enable speedy services and resources delivery from foreign partners	2.94	.567	-.13	.130

Notes : n = 151
* significant at 0.05 level
.(1) one-tailed test; (2) two-tailed test

__See the full names of the companies referred in this chapter in table 4.5__

Likewise, the TFEs' motives pertinent to *learning sophisticated technology, achieving cost competitive edge, and enhancing marketing skills* were dependent on firm size. The previous conclusion resulted from the Chi Square statistics of variables MT.2, 3, and 4 in the table 6.12. Therefore, the researcher concluded that the larger the TFEs, the more attention was paid to alliance motives associated with *learning sophisticated technology, achieving cost competitive edge, and enhancing marketing skills.*

In brief, all TFEs' alliance motives associated with the ***market-offensive approach*** (MT 1-4) were strongly dependent on TFE size. Larger TFEs were supposed to pay greater attention to these motives. This meant that larger TFEs had a stronger tendency to strengthen long-term competitive market positions and expand their market scope than smaller firms.

TFEs needed to be empowered to *obtain partners' competencies for facilitating international operations* (MT05) and *use partners' arm-lengths for a fast international presence* (MT07) from engaging in alliances. Again, the two variables were significantly related to a size variable. This resulted from their Chi Square statistics falling in the critical region. In this respect, it was evident that larger TFEs were prone to have greater intention to acquire foreign partners' resources in order to improve international competitive statuses. This might be due to their potential and capability which was much higher than that of the smaller firms. Moreover, the TFEs' size also affected strategic alliance motives with respect to *pre-empting the rise of potential rivals* (MT.16). Larger TFEs were more concerned with the rise of potential entrants and more likely to use alliances to prevent such an event.

Regarding the rest of the alliance motives driving TFEs to ally themselves with their foreign partners, there was not sufficient evidence to demonstrate the dependence between the motive and size variables. Thus, the researcher could not infer any impact of TFEs' size on their strategic decisions relevant to their alliance motives.

Apart from a firm size variable, *TFEs' alliance performance variable* (PER) was taken into the Chi Square analysis. The alliance performance is evaluated by the four-ranked scales, consisting of *very dissatisfaction, dissatisfaction, satisfaction, very satisfaction.*

See the full names of the companies referred in this chapter in table 4.5

All the motive variables were cross-tabulated by a performance variable. There were four motives demonstrating their dependence on TFEs' performances at the 0.05 level of significance (See Table 6.13).

From table 6.13, we see a relationship of dependence *between an alliance motive associated with promoting firm's image and reputation* (MT01) and *an alliance performance variable* (χ^2*=20.83,* ρ*=0.18).* Thus, TFEs' alliance performance satisfaction was significantly related to such a motive. This could imply that TFEs giving more importance to a motive in respect of promoting the firm's image and reputation were likely to be more satisfied with their alliance performance.

Likewise, at the 0.05 level of significance, TFEs' alliance motives with respect to *learning sophisticated technology* (MT02), *achieving cost competitive edge* (MT03), and *enhancing marketing capabilities* (MT04) demonstrated their significant relationships with a performance variable (See table 6.13). However, their Pearson's correlation coefficients were very low and insignificant. Therefore, the researcher could conclude that the level of TFEs' alliance performance was related to the level of importance given to the motives associated with achieving cost competitive advantages, enhancing marketing skills, and surviving in global competition. The other alliance motive variables had no significant relationship of dependence on an alliance performance variable.

See the full names of the companies referred in this chapter in table 4.5

Table 6.13

The Chi Square Statistic of Motive Variables

Cross-Tabulated by Alliance Performance Variable.

Variable	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
MT 1	1.To promote firm's image and reputation	20.83	.009*	0.18	.020*
MT 2	2.To learn sophisticated technology	12.95	.043*	0.09	0.250
MT 3	3. To achieve cost competitive edge	16.06	.013*	.15	.051
MT 4	4.To enhance marketing capability	22.48	.000*	.10	.201
MT 5	5. To obtain partners' competencies for facilitating international operations	8.22	.222	-.02	.773
MT 6	6. To utilise foreigner's resources for strengthening competitive position in foreign competition	4.92	.553	.03	.671
MT 7	7.To use partner's arm-lengths for a fast international presence	7.25	.298	.086	.287
MT 8	8.To acquire partner's securities customer base	5.83	.441	.03	.658
MT 9	9.To handle the convergence of customer preferences	9.16	.164	.04	.604
MT10	10.To respond to a variety of customers' needs	4.62	.592	-.07	.383
MT11	11.To deal with changes in market demand conditions	10.67	.09	-.02	.726
MT12	12.To accelerate new product and service development	3.24	.778	.05	.498
MT13	13.To survive in the intense global competition	10.96	.08	-.05	.944
MT14	14.To reduce degree of foreign competition in the industry	3.51	.742	-.04	.611
MT15	15.To reduce the number of existing competitors	8.76	.459	-.01	.885
MT16	16.To pre-empt the rise of potential rivals	11.15	.265	.00	.954
MT17	17.To ensure quality of services and resources needed	4.99	.545	-.06	.423
MT18	18.To strengthen a long-term service and resource procurement commitment	3.74	.704	.02	.768
MT19	19.To enable speedy services and resources delivery from foreign partners	5.97	.426	-.07	.332

Notes : n = 151
* significant at 0.05 level
.(1) one-tailed test; (2) two-tailed test

**See the full names of the companies referred in this chapter in table 4.5*

6.5 Conclusion

The international alliances of Thai financial enterprises (TFEs) had been regarded as a strategic weapon over the other alternatives for many years due to their considerable benefits. Mostly, TFEs' alliances were arranged as equity-linked collaboration, particularly minority-equity relationships in which foreign partners hold minority stakes. The cross-border relationships of TFEs focused heavily upon marketing and research co-operation in terms of customer services, securities trading, as well as research techniques and database transfer. Major partners of TFEs were composed of foreign financial firms from European countries, America, Hong Kong, and Japan. However, in reality, even though the majority of these financial firms had headquarters in the North America or European countries, their subsidiaries in Hong Kong and Singapore were assigned to directly contact TFEs for continuing their international collaboration.

TFEs' seemed to pay significant attention to ***cross-border alliance motives in respect of both defensive and offensive approaches***. The defensive approach consisted of ***market-defensive motives***, with respect to *competitive and demand uncertainties*, and ***resource-defensive motives***. TFEs wished to establish their international co-operation in order to defend their market position from such uncertainties. They also focused on acquiring and utilising their partners' resources so as to stabilise their operations. On the other hand, TFEs emphasised offensive motives, comprising ***market-offensive and resource-offensive motives***. In this respect, TFEs aspired to improve their market competitiveness and expand their market scope by alliance with their partners. Moreover, they remained in great need of partners' strategic resources, to utilise them for advancing their operations in the industry.

The next chapter is concerned with the survey results of the partner selection process of TFEs' international alliances. The strategic criteria of the firms are presented and discussed. The factors affecting the effectiveness of such a process of TFE's alliances are also reported in the chapter.

***See the full names of the companies referred in this chapter in table 4.5**

Chapter 7 Strategic Criteria for TFEs' International Alliances: Survey Results*

7.1 Introduction

This chapter focuses on the TFEs' strategic criteria in the international alliance formation stage. TFEs' channels of approach of foreign partners are presented. The various criteria are analysed in order to shed light on the main ideas in the selection process of TFEs' alliances. Further, the application of the criteria on the partner selection process and the influences on the effectiveness of the partner selection process are discussed. The relationships of major criteria variables are also critically discussed in order to offer a complete picture in the partner selection process. In the final part, the conclusions on the topic are provided.

7.2 TFEs' Channels of Approaching Foreign Partners

We see in table 7.1 that TFEs obtained information about their prospective partners via several major channels. Recommendations from their shareholders and executives were most popular (50.0%). 23.1 per cent of respondents informed us that their alliances had been developed from the customer relationships. This meant that the partners had long been TFEs' clients. 10.4 per cent of respondents reported that foreign partners were well-known in the world's financial industry already. In this respect, these companies did not need to search for more information on partners, while the other 16.5 per cent of respondents directed their own research departments to seek prospective partners.

Table 7.1 TFEs' Channels of Approaching Foreign Partners

Channels of Approaching	Valid Percent	Cumulative Percent
Shareholders and executives' connections	**67** (50.0%)	**67** (50.0%)
Past client relationships	**31** (23.1%)	**98** (73.1%)
Research department of TFEs	**22** (16.5%)	**120** (89.6%)
Reputations of the foreign partners	**14** (10.4%)	**134** (100.0%)

Note: n = 134

******See the full names of the companies referred in this chapter in table 4.5*

From the empirical data, TFEs' most popular and dominant method of discovering their foreign partners was using the connections and relationships of shareholders and top executives. Both business and personal relationships were always exploited in order to gain better chances of receiving eligible partners (UAF, 1997; BOOK CLUB, 1997). This resulted from the unique attributes of Thai business customs which were a blend between typical Thai and Chinese cultures (BOOK CLUB, 1997; UAF, 1997; THAI OVERSEAS, 1997). It was also further stated that

"Thais were always very conscientious. In contrast, Chinese people were keen to make business by using tactics and constructing long-term relationships for current and future trades. As the two groups of people were firmly mixed, we could envisage the state of current Thai business customs. The personal and business connections of TFEs' shareholders then were used to find out detailed information on prospective foreign partners."

(Interview with managing director of THAI OVERSEAS, 1997)

Mostly, the TFEs would first contact foreign financial houses with which they had long established relationships based upon confidence, comfort, and trust (BOOK CLUB, 1997; THAI RUNG RUANG, 1997). Different patterns in reaching these foreign firms had been utilised. Firstly, TFEs that belonged to large and multinational companies used their shareholders' worldwide connections and reputations to attract foreign partners in the first place (SRI DHANA, 1997; CATHAY, 1997; BARA, 1997). Although their shareholders were not always in the global financial industry, they could be referred to as being groups of transnational companies, by their current business counterparts (CL, 1997; SRI DHANA, 1997; CATHAY, 1997; BARA, 1997). Involvement in world-wide business resulted in easy access to international channels of information. Secondly, as the majority of TFEs were mainly owned by commercial banks or other huge financial institutions, it was convenient to use the existing international financial linkages of their shareholders for seeking their partners (ACL, 1997; AITCO, 1997; KTT; 1997; MCC, 1997). For example, their shareholders had international financial institutions as correspondence banks and other forms of business partners. In this respect, TFEs were able to obtain better and more precise information on partners. They were also prone to connect with foreign firms that had close relationships with their shareholders' existing partners (UAF, 1997; KTT, 1997). There was a likelihood that these TFEs obtained satisfactory and durable cross-border partnerships.

See the full names of the companies referred in this chapter in table 4.5

With reference to the relationships and connections of TFEs' executives, the executives usually sought information about foreign partners from their friends working in other foreign financial firms (DS, 1997; KTT, 1997). The reasons why these executives had many linkages abroad were as follows. Most of them graduated from prestigious international universities, including those in the UK and the USA (SCB, 1997; JF, 1997; BARA, 1997). In addition, the majority of them had been working in some foreign financial firms prior to joining the TFEs (JF, 1997; THANA ONE, 1997). Thus, they had plenty of connections in international financial communities. However, as TFEs were in the beginning stage of internationalisation, sometimes their executives must approach their prospective partners first to attract more attention from foreign firms (JF, 1997; SRI DHANA, 1997).

Other channels to search for eligible foreign partners were composed of customer relationships and the internal research of TFEs. Some of TFEs developed their alliances from past customer relationships. In this context, good relationships and satisfactory performances between TFEs and their foreign customers urged them to mutually develop their strategic linkages (WALL, 1997; SCF, 1997; SEAMICO, 1997).

Another important way to seek out TFEs' foreign partners was the analysis from their research department. The intelligence units of the department gathered, prepared, and passed on information on potential foreign partners to executives (EASTERN, 1997; EKA, 1997; KRUNG THAI, 1997; UNION, 1997). This way was also popular due to the data available in the global financial industry at the moment. Most of the multinational financial firms were already well-known (EKA, 1997; KRUNG THAI, 1997; UNION, 1997; S-ONE, 1997). However, this was considered risky because the crucial issues could not be elicited. Thus, TFEs' executives usually employed this source of information as a supplement when searching for a partner (DS, 1997; SCB, 1997).

7.3 TFEs' Strategic Criteria for International Alliances

Regarding the strategic criteria of TFEs' foreign partner selections, table 7.2 presented the descriptive frequency on each criterion. Attitudes of respondents towards all criteria were categorised as four levels, ranging from the least important to the most important. Most of the criteria appearing in the questionnaire were regarded as important issues (See Table 7.2).

See the full names of the companies referred in this chapter in table 4.5

In detail, TFEs' executives paid most attention to *cross-border experience and expertise* (mean of 3.76) and *international image and reputation of partners* (mean of 3.74). These two criteria focused on international competence of foreign partners. The TFEs' had a strong desire to acquire skills and technology which were internationally acceptable. TFEs also wished to strengthen their credibility and image exposed to the international financial industry in order to raise cheaper funds from overseas.

Similarly, the *geographical dispersion of partners' markets* and the *financial status of partners* were also highly desirable. The two criteria scored 3.61 and 3.46 respectively. Evidently, the empirical results indicated that TFEs were at the stage of preparation for internationalisation. Some of them had already established subsidiaries in foreign countries. Therefore, they endeavoured to ally themselves with foreign partners possessing extensive international marketing networks. *Financial status of foreign partners* was another important criterion of TFEs. As financial stability was one of the most important issues when conducting financial business, strong financial status was important. This was because most TFEs also needed their partners to be their capital bases in the future.

TFEs' executives also regarded *attitudes towards inter-firm collaboration* (mean of 3.41), *compatible operational corporate culture* (mean of 3.34), *philosophies in respect of human resource operations* (mean of 3.32), and *consistent business customs of partners* (mean of 3.23) as important criteria. This was because the attitudes and operational beliefs strongly affected alliance performance. Matching the operational attitudes of all the partners was of necessity when preventing obstacles in TFEs' collaboration. Also, TFEs were more likely to ally themselves with foreign partners possessing a similar operational corporate culture. A consistency of business corporate culture resulted in smoother and more stable co-operation. Furthermore, it was evident that a huge gap of operational corporate culture could have caused culture shock in the partnering firms.

See the full names of the companies referred in this chapter in table 4.5

Table 7.2 TFEs' Strategic Criteria for Foreign Partner Selection Process

Variables	Criteria	Mean	Ranking	t-value of differences	significance
CTR09	9.Cross-border experience and expertise	3.76	1		
CTR08	8.International image and reputation of partners	3.74	2	0.54	0.592
CTR11	11.Geographical dispersion of partners' markets	3.61	3	2.32*	0.022*
CTR07	7.Financial Status of partners	3.46	4	2.45*	0.015*
CTR12	12.Attitudes towards inter-firm collaboration	3.41	5	0.74	0.460
CTR06	6.Quality of customer services	3.35	6	1.04	0.299
CTR14	14.Compatible operational corporate culture	3.34	7	0.10	0.919
CTR10	10.Quality of management teams	3.32	8	0.28	0.779
CTR13	13. Philosophies in respect of human resource operations	3.32	9	0.11	0.912
CTR15	15. Consistent business customs of partners	3.23	10	1.55	0.123
CTR05	5.Consistent long-term vision of partners' executives	3.14	11	1.01	0.314
CTR02	2.Consistency of long-term goals	3.02	12	2.12*	0.036*
CTR04	4.Compatible size of foreign partners	2.95	13	1.20	0.233
CTR03	3.Compatible major operational systems	2.86	14	1.66*	0.099*
CTR01	1.Differences in major managerial styles	2.78	15	1.46	0.146
CTR16	16.Predominant language used by foreign partners	2.03	16	7.72*	0.000*
CTR17	17.Nationality of foreign partners	1.90	17	2.78*	0.006*

Notes : n = 152

* significant at 0.05 level

Criteria pertinent to *quality of customer services* (mean of 3.35), *quality of management teams* (mean of 3.32) were also significant and considered to be complementary to TFEs' competence. The importance of customer service quality was referred to as speed, accuracy, and reliability in servicing international clients which TFEs expected to learn from their foreign partners. TFEs also wished to learn professional skills and international experience from the management.

Consistent long-term vision of partners' executives (mean of 3.14) and *consistency of long-term goals* (mean of 3.02) were given significant attention. Consistency in managerial vision and long-term goals helped prolong and stabilise strategic collaboration between partners.

See the full names of the companies referred in this chapter in table 4.5

Moreover, conflicts of interest could be reduced as long as all partnering firms intended to achieve common goals. Consequently, their co-operation would be based entirely upon common interest and mutual benefits.

Compatible size of foreign partners (mean of 2.95) was also regarded by TFEs when choosing foreign partners. This was because it was believed size could affect other strategic aspects in the organisation. In general, it made sense if TFEs intended to establish alliances with partners which had as a large size as possible. In practice, TFEs' executives were more willing to partner foreign firms of similar sizes. Greater differences between partners' sizes contributed to more differences in various strategic aspects and also more alliance problems with respect to bargaining power and domination.

Other criteria taken into account for foreign partner selection comprised *compatible major operational systems* (mean of 2.86) and *differences in major managerial styles* (mean of 2.78). Likewise, TFEs needed to alleviate the effects of differences in managerial systems between partners. Clearly, they insisted that the durability and stability of alliances resulted from compatible managerial styles and systems. As a consequence, more opportunities for closer and longer lasting coalition existed.

There were two issues that were *not recognised as important criteria in partner selection.* First, a *predominant language used by foreign partners* received a mean of 2.03. Second, *nationality of foreign partners* obtained a mean of 1.90. The empirical results showed that the majority of TFEs' executives paid insignificant attention to the two criteria above. Currently, an official language used in each firm did not negatively affect alliance performances as English was regarded as an international business language. Moreover, the executives believed that any serious problems from each partner's attributes might not exist as long as their collaboration was based on a mutual benefit basis. That was why different nationalities did not make significant differences in alliances.

Also, table 7.2 shows that most of the criteria received similar attention. Regarding "*t values of differences*", the values were employed to identify the significant differences between the mean of two adjacent criteria.

See the full names of the companies referred in this chapter in table 4.5

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associated with *strategic fit and balance of foreign partners.* The sixth hypothesis involved; H_6o: *The fit and balance of strategic intent are not of significant concern to Thai Financial Enterprises (TFEs) in the foreign partner selection.* H_6a: *The fit and balance of strategic intent are of significant concern to Thai Financial Enterprises (TFEs) in the foreign partner selection.*

Table 7.3 presents the importance of each criterion given by TFEs' executives. The majority of the respondents considered that all the strategic fit criteria were significantly taken into account when selecting eligible partners. In particular, consistency in long-term visions and objectives between partners, resulted in more durable alliances and greater long-term benefits. The firms focusing on these criteria seemed to be long-term oriented. Therefore, the sixth null hypothesis is rejected and the alternative one is accepted. That is, *the fit and balance of strategic intent are of significant concern to Thai Financial Enterprises (TFEs) in the foreign partner selection.*

Table 7.3 Criteria associated with strategic fit and balance

TFE's	Least Important		Less Important		Important		Most Important		Mean
Alliance Motives	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	
1.Differences in Major Managerial Styles	**16** (10.5%)	**16** (10.5%)	**40** (26.3%)	**56** (36.8%)	**57** (37.5%)	**113** (74.3%)	**39** (25.7%)	**152** (100.0%)	**2.78**
2.Consistency of Long-term Goals	**19** (12.5%)	**19** (12.5%)	**29** (19.1%)	**48** (1.6%)	**34** (22.3%)	**82** (53.9%)	**70** (46.1%)	**152** (100.0%)	**3.02**
3.Compatible Major Operational Systems	**18** (11.8%)	**18** (11.8%)	**32** (21.1%)	**50** (2.9%)	**55** (36.2%)	**105** (69.1%)	**47** (30.9%)	**152** (100.0%)	**2.86**
4.Compatible Size of Foreign Partners	**17** (11.2%)	**17** (11.2%)	**27** (17.8%)	**44** (29.0%)	**54** (35.5%)	**98** (64.5%)	**54** (35.5%)	**152** (100.0%)	**2.95**
5.Consistent Long-term Vision of partners' executives	**14** (9.2%)	**14** (9.2%)	**30** (19.7%)	**44** (28.9%)	**29** (19.1%)	**73** (48.0%)	**79** (52.0%)	**152** (100.0%)	**3.14**
Reliability Coefficient	**0.94**								

Notes : n = 152

Obviously, TFEs' executives paid great attention to criteria associated with **strategic compatibility,** which consisted of foreign partners' long-term goals and adjectives, master plans, competitive strategies, as well as managerial perspectives, visions, and systems. The dominant reason behind such criteria was long-term stability. Most TFEs' executives believed that consistent managerial intentions fostered long international collaboration and resulted in mutual long term benefits and development (THAI OVERSEAS, 1997; DS, 1997; KTT, 1997; KRUNG THAI, 1997; NITHIPAT, 1997). Likewise, TFEs' executives informed us that the more consistency the strategic intent, the fewer opportunities for conflict of interest would exist. Therefore, they endeavoured to seek foreign partners who expected similar and compatible benefits (DS, 1997; UAF, 1997; ACL, 1997). It was much more preferable if these partners had consistent expectations both in the short and long run.

Moreover, foreign partners which expected to play a principal part in the Thai financial industry were given higher priority due to the consistent long-term benefits with TFEs (THAI OVERSEAS, 1997; DS, 1997; KTT, 1997; KRUNG THAI, 1997; NITHIPAT, 1997). Foreign partners' Asian concentration and Thai focus were also of particular concern (DS, 1997; SRI DHANA, 1997; BOOK CLUB, 1997; UAF, 1997). This was because these foreign partners would invest more in Thailand and long-term benefits were likely to provide pay back to the TFEs automatically.

However, the criteria associated with strategic compatibility were not important to some TFEs. This event was likely to happen when TFEs established non-equity alliances and they had no strong intention of developing their co-operation to become equity linkages (SCF, 1997). In some cases, TFEs believed that their strategic systems were not efficient enough. They then did not need to seek foreign partners with similar strategic systems because they intended to adopt all the different and more efficient systems from their partners. (SCB, 1997; THAI FUJI, 1997; POON, 1997). Hence, there was no sensible reason to reject foreign partners' strategic attributes which were likely to be better and more suitable than those of TFEs (THAI FUJI, 1997; SCB, 1997).

The next group of criterion variables was *"synergy and complementary skills of partners"*. In this respect, the seventh hypothesis involved H_7o: *Thai Financial Enterprises (TFEs) interested in allying themselves with foreign partners do not regard synergy and complementary skills as the major criteria in selecting foreign partners.* H_7a: *Thai Financial*

See the full names of the companies referred in this chapter in table 4.5

Enterprises (TFEs) interested in allying themselves with foreign partners regard synergy and complementary skills as the major criteria in selecting foreign partners.

The empirical results from table 7.4 demonstrate that all criteria in the category were of TFEs' interest. TFEs' executives endeavoured to seek foreign partners possessing competencies and resources which the TFEs seriously lacked. Skills, knowledge, expertise, financial resources, reputation, and networks were attributes of these criteria. These attributes were also considered to be the alliances' immediate benefits and to be obtained shortly after developing an alliance. Therefore, the seventh null hypothesis is rejected and the alternative one is accepted. That is, *Thai Financial Enterprises (TFEs) interested in allying themselves with foreign partners regard synergy and complementary skills as the major criteria in selecting foreign partners.*

Table 7.4 Criteria associated with Synergy and Complementary Competencies

TFE's	Least Important		Less Important		Important		Most Important		Mean
Alliance Motives	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	
6.Quality of Customer Services	2 (1.3%)	2 (1.3%)	5 (3.3%)	7 (6%)	83 (54.6%)	90 (59.2%)	62 (40.8%)	152 (100.0%)	3.35
7.Financial Status of Partners	1 (0.7%)	1 (0.7%)	7 (4.6%)	8 (5.3%)	65 (42.7%)	73 (48.0%)	79 (52.0%)	152 (100.0%)	3.46
8.International Image and Reputation of partners	1 (0.7%)	1 (0.7%)	3 (2.0%)	4 (2.7%)	31 (20.3%)	35 (23.0%)	117 (77.0%)	152 (100.0%)	3.74
9. Cross-Border Experience and Expertise	1 (0.7%)	1 (0.7%)	4 (2.6%)	5 (3.3%)	26 (17.1%)	31 (20.4%)	121 (79.6%)	152 (100.0%)	3.76
10.Quality of Management Teams	1 (0.7%)	1 (0.7%)	6 (3.9%)	7 (4.6%)	88 (57.9%)	95 (62.5%)	57 (37.5%)	152 (100.0%)	3.32
11.Geographical Dispersion of Partners' Markets	1 (0.7%)	1 (0.7%)	4 (2.6%)	5 (3.3%)	48 (31.6%)	53 (4.9%)	99 (65.1%)	152 (100.0%)	3.61
Reliability Coefficient	0.75								

Notes : n = 152

In the interviews, TFE's executives regarded these criteria as initial requirements that they were concerned with. These criteria included international image and reputation, cross-border skills and experience, financial stability, global and regional marketing networks, worldwide sources of information and capability of management teams as well as advanced expertise of staff in the international operations. These competencies of foreign partners were highly important to TFEs in order to complement their capability in both domestic and international competition. TFEs were in need of that which complemented them and they attempted to immediately acquire these from their partners (BANGKOK FIN, 1997; KK, 1997; EKA, 1997)

As TFEs were motivated by the demands of the strategic resources in order to expand their business scope, they focused entirely upon foreign partners' foreign client base, complete distribution systems, international marketing practices and major foreign marketing facilities (ACL, 1997; ASIA, 1997, BANGKOK FIN, 1997; DS, 1997; GF, 1997). Meanwhile, foreign partners' intangible resources were highly emphasised in the partner selection process. Additionally, information on foreign customers' preferences, attitudes and purchasing patterns, helped TFEs to achieve their goals when entering international markets (EASTERN, 1997; ACL, 1997; ASIA, 1997, BANGKOK FIN, 1997; DS, 1997; GF, 1997).

Regarding the required skills, it was stated that

"TFEs most desired research expertise and skills in terms of sophisticated analytical techniques, patterns of analysis, internationally accepted formats of research papers, methods of drawing recommendations and conclusions. Meanwhile, some TFEs pointed out that they focused more upon sources of international research information and global directions toward the world's financial industry."

(Interview with managing director of SCB securities, 1997)

Also, the *operational cultural aspects* of foreign partners were deployed as the major criteria when assessing the qualifications of partners. The eighth hypothesis involved; *H_8o: The operational cultural differences between Thai Financial Enterprises (TFEs) and their potential foreign partners are not considered a crucial factor in establishing the TFEs' international networks. H_8a: The operational cultural differences between Thai Financial Enterprises (TFEs) and their potential foreign partners are considered a crucial factor in establishing the TFEs' international networks.*

In particular, the cultural issues with respect to the major operations of the firms were emphasised in this context. *Beliefs, values, and attitudes towards operational issues as well*

***See the full names of the companies referred in this chapter in table 4.5**

as patterns of business operations were included in this category. TFEs' executives strongly agreed that the lesser the cultural gap between partners, the more cohesion and effectiveness of the alliances likely to exist. Therefore, the null hypothesis is rejected and the alternative one is accepted. That is, *the operational cultural differences between Thai Financial Enterprises (TFEs) and their potential foreign partners are considered a crucial factor in order to establish the TFEs' international networks* (See Table 7.5).

Table 7.5 Criteria associated with operational cultural aspects

TFE's Alliance Motives	Least Important		Less Important		Important		Most Important		Mean
	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	Frequency	Cumulative	
12.Attitudes Towards Inter-firm Collaboration	**1** (0.7%)	**1** (0.7%)	**3** (2.0%)	**4** (2.7%)	**80** (52.6%)	**84** (55.3%)	**68** (44.7%)	**152** (100.0%)	**3.41**
13.Philosophy in respect of Human Resources	**2** (1.3%)	**2** (1.3%)	**7** (4.6%)	**9** (5.9%)	**84** (55.3%)	**93** (61.2%)	**59** (38.8%)	**152** (100.0%)	**3.32**
14.Compatible Operational Corporate Culture	**3** (2%)	**3** (2%)	**9** (5.9%)	**12** (7.9%)	**73** (48.0%)	**85** (55.9%)	**67** (44.1%)	**152** (100.0%)	**3.34**
15.Consistent Business Customs of partners	**0** (0%)	**0** (0%)	**9** (5.9%)	**9** (5.9%)	**99** (65.6%)	**108** (72.5%)	**43** (35.5%)	**152** (100.0%)	**3.23**
Reliability Coefficient	**0.76**								

Notes : n = 152

In this respect, the majority of TFEs' executives believed in the importance of operational culture consistency between their firms and foreign partners. The similar operational cultures contributed to smooth collaboration, particularly at the working level (ACL, 1997; ASIA, 1997; PAT, 1997; CMIC, 1997; GF, 1997; DS, 1997). Additionally, there was little chance of causing cultural shock in the case of alliance with similar operational cultures.

However, sometimes differences between operational cultures between the partners sometimes were expected to promote enthusiasm and the entrepreneurial spirit of TFEs. In many TFEs' alliance cases, one of their major aims was to learn and to absorb modern, sophisticated, and efficient ideas in operations from their partners (KTT, 1997; UAF, 1997; BOOK CLUB, 1997). Furthermore, inconsistent operational patterns and attitudes in the financial service industry did not cause such problems as serious as those in manufacturing

See the full names of the companies referred in this chapter in table 4.5

industry (SCB, 1997; FIRST BANGKOK, 1997; KTT, 1997). This was because there was no high technology production process or complicated machinery, but only ideas and procedures. Therefore, it was apparently easier to close an operational gap in this respect (SCB, 1997). Finally, TFEs' staff were also encouraged to realise that they were operating in a dynamically changing industry and must be ready for major alteration (SEAMICO, 1997; WALL, 1997; FIN-ONE, 1997; S-ONE, 1997). They were supposed to thoroughly apprehend how to live with the differences and changes.

The last group of criterion variables involved "*individual attributes of foreign partners*" Alternatively, this category could be named as "a pure cultural variable". In this category, the ninth hypothesis was; *H_9o: the individual attributes of foreign partners are not regarded as major criteria in TFEs' foreign partner selection process. H_9a: the individual attributes of foreign partners are regarded as major criteria in TFEs' foreign partner selection process.*

The criteria were related to unique characters of foreign partners which were not directly related to firms' operational systems and performance. A foreign partner's dominant language and its nationality were chosen as representatives of this category. Interestingly, the empirical results in the table 7.6 inform us that TFEs' executives did not regard this variable as the major criteria (See Table 7.6). Most of the respondents did not figure that a dominant language and nationality of a foreign partner would affect their collaboration's efficiency and effectiveness. Hence, the ninth null hypothesis is accepted. That is, *the individual attributes of foreign partners are not regarded as major criteria in TFEs' foreign partner selection process.*

Table 7.6 Individual Attributes of Foreign Partners

TFE's	Least Important		Less Important		Important		Most Important		Mean
Alliance Motives	Frequency	Cumulative	Frequency	Cumulative	Frequency	**Cumulative**	Frequency	Cumulative	
Predominant Language used by foreign partners	**36** (23.7%)	**36** (23.7%)	**79** (52.0%)	**115** (75.7%)	**33** (21.7%)	**148** (97.4%)	**4** (2.6%)	**152** (100.0%)	**2.03**
Nationality of foreign partners	**44** (28.9%)	**44** (28.9%)	**81** (53.3%)	**125** (82.2%)	**25** (16.5%)	**150** (98.7%)	**2** (1.3%)	**152** (100.0%)	**1.90**
Reliability Coefficient	**0.81**								

Notes : n = 152

See the full names of the companies referred in this chapter in table 4.5

According to the interviews, the criteria associated with ***pure cultural issues and individual attributes***, including personal attitudes, general perceptions, life styles, nationality and language, of foreign partners were of unimportance when selecting TFEs' foreign partners. Most TFEs reckoned that the individual characteristics of their foreign partners had no significant impact on their alliance performance and operations (ACL, 1997). Although some TFEs' executives accepted that the differences in non-operational cultures between partners slightly affected alliances as a whole, TFEs' international alliances based entirely on mutual benefits would continue to prosper (ACL, 1997; BANGKOK FIN, 1997; KTT, 1997). If there was an apparent consistency in the core strategic intent, the operational performance in a TFE's alliance should be satisfactory (ACL, 1997; ASIA, 1997; EASTERN, 1997). Moreover, there was a further statement that

"In particular, differences in non-operational cultures definitely existed in the international business climates. TFEs' executives totally agreed that TFEs could not avoid problems resulting from the cultural differences in international alliances even if they endeavoured to choose partners from neighbouring countries. They were obliged to accept, handle, and manage the differences instead of escaping from them."

(Interview with managing director of JF Thanakom Securities, 1997)

Also, as TFEs had been deliberately developed to become more internationalised, it could be said that pure cultural differences were no longer a serious problem. Moreover, some TFEs had been set up to be international firms from the beginning and had always been in contact with foreign investors. Therefore, they would understand the cultural issues and differences (SCB, 1997; PRIME, 1997; EKA, 1997; NAVA, 1997).

Currently, most TFEs were managed by competent and highly educated executives who were familiar with international business conditions. They could manage cultural differences in cross-border alliances more effectively. Actually, there were some TFEs that had foreign shareholders and managers prior to establishing alliances (BARA, 1997; SRI DHANA; 1997; MCC, 1997). Thus, the familiarity of managing in the international business environment had already been perceived. In other words, the unique cultural differences of each foreign financial firm seldom existed. This was because the foreign firm always had a varied combination of staff from many countries. Thus, the corporate culture of foreign

****See the full names of the companies referred in this chapter in table 4.5***

financial firms was a multi-cultural dimension and the unique cultural issues hardly existed (DS, 1997; THAI OVERSEAS, 1997). Hence, there was an insignificant impact from national differences in foreign financial firms.

Also, as Thais had never discriminated on the grounds of race, they felt comfortable co-operating with other nationalities. The negative effects of the cultural differences were alleviated and did not concern TFEs' executives in foreign partner selection processes (ACL, 1997; SCB, 1997; PRIME, 1997; EKA, 1997; NAVA, 1997). In addition, some directors insisted that similar pure cultures between foreign partners were no longer a key to TFEs' alliance success.

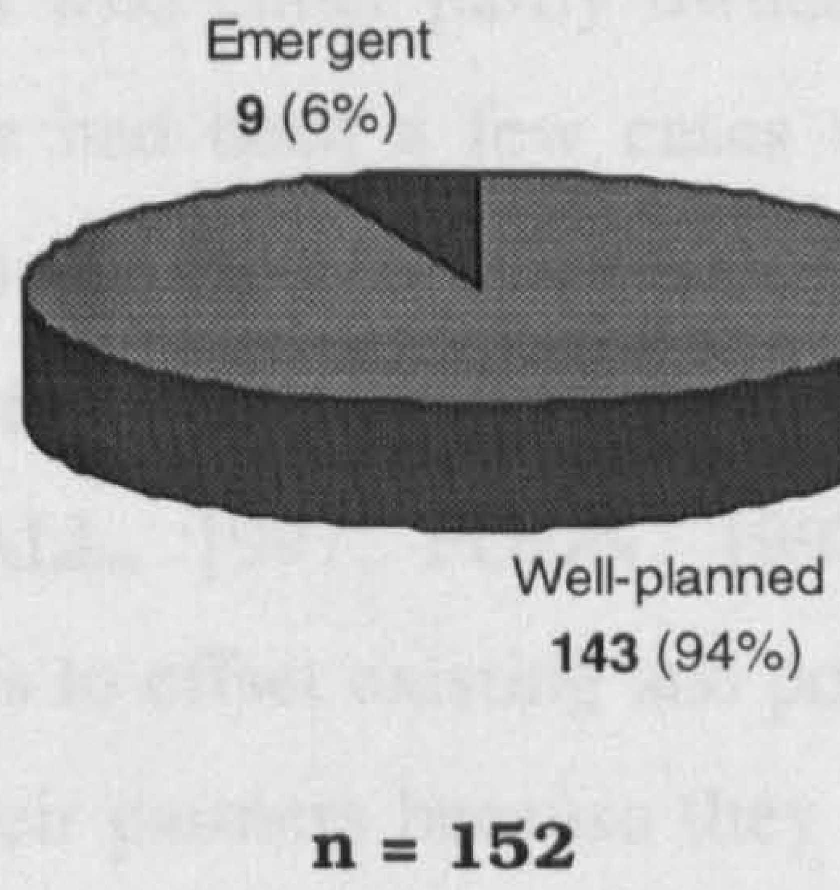
Nonetheless, there were a few TFEs that realised the importance of cultural differences between partners. Some of them considered that unique national traits somewhat affected the overall performance of international co-operation (KTT, 1997; KRUNG THAI, 1997; UAF, 1997; UNITED, 1997). Apparently, the alliances, which were formed as joint ventures, regarded cultural differences as a major criterion for foreign partner consideration (KTT, 1997; KRUNG THAI, 1997; THAI OVERSEAS, 1997). This was because all contributions, including effort, resources, personnel, and all cultural issues from both partners must be thoroughly amalgamated in order to construct a new cross-cultural venture.

7.4 Application of TFE's Strategic Criteria

Regarding the TFEs' international partner selection process, the vast majority of respondents (94.0 percent) stated that *they thoroughly applied their predetermined selection criteria to the assessment of their prospective partners' suitability* (See Figure 7.1). In this respect, it was implied that the TFEs selection of foreign partners was ***well-planned.*** Only a few TFEs' executives reported that they selected their foreign partners on ***an emergent basis***.

See the full names of the companies referred in this chapter in table 4.5

Figure 7.1 Application of TFEs Criteria



From empirical investigation, the majority of TFEs' executives strongly indicated that they considered their partners' suitability through their selection criteria, and well-planned partnerships with foreign firms. Despite being in the dynamically changing business world, they did not need to hurriedly establish alliances. This was because strict laws and regulations had protected TFEs from invasions of foreign financial companies for several decades (UAF, 1997; ACL, 1997; BOOK CLUB, 1997; DS, 1997; THANA-ONE, 1997). Therefore, they had enough time to assess the appropriateness of international alliance strategy and the prospective foreign partners.

Moreover, as the ownership structures and cultures of some TFEs remained family-owned or single group-owned, the dominant group must carefully select partners to share their managerial and ownership control (ACL, 1997; BOOK CLUB, 1997; CATHAY, 1997; THANA-ONE, 1997). In addition, the image and reputation of TFEs' foreign partners were crucial to TFEs' success (DS, 1997; TISCO, 1997; JF, 1997). For this reason, they were very selective and put significant effort into the selection process.

Nevertheless, there were some TFEs that appeared to urgently ally with their partners without thorough consideration. The apparent cause of this behaviour was the scarcity of desirable and prospective foreign partners (BARA, 1997; FIRST BANGKOK, 1997; Prime; 1997). Many TFEs' executives pointed out that though they were in satisfactory situations, they had been in a rush to develop alliances because of the shortage of eligible foreign firms.

See the full names of the companies referred in this chapter in table 4.5

Sometimes, TFEs were forced to ally themselves with emergent partners instead of well-planned alliances because of a mandate from powerful shareholders. The emergent partners, in this respect, were foreign firms who either partly owned a stake in or had relationship with the TFEs before. Also, there had been a few cases when TFEs must develop their alliances from an emergent situation owing to imminent threats. In these cases, TFEs wished to alleviate and avoid negative effects from external threats or their own unsatisfactory performance (BARA, 1997; WALL, 1997; POON, 1997). Alliances with respectable partners offered immediate benefits to offset existing and potential losses. Also, a few TFEs hurried to ally themselves with their partners because they intended to capture and exploit considerable opportunities at that time (FIRST BANGKOK, 1997; SCF, 1997). Mostly, such opportunities included buying and selling securities orders for foreign clients which were to be immediately gained.

7.5 Factors on Effectiveness of TFEs' Foreign Partner Selection

TFEs' executives reckoned that ttheir foreign partner selection process was effective (73 percent) and ineffective (27 percent). The influencing factors on effectiveness of their foreign partner selection process are presented in table 7.7. Firstly, the executives indicated that *the past relationships with the prospective foreign partners* were the most important reason (82.9 percent) to help them receive satisfactory partners. The TFEs were also confident in *the validity of their analytical process* (77.0 percent) in helping them to engage in alliances with the right partners. Further, TFEs' executives believed that the effectiveness of their selection process also resulted from *the availability of qualified foreign firms* (57.9 percent) and *the reputation of TFEs themselves* at that time (52.6 percent).

See the full names of the companies referred in this chapter in table 4.5

Table 7.7 Influences on Effectiveness of Partner Selection Process

Influencing Factors	Frequency
The past relationship with the prospective foreign partner	**126** (82.9%)
The validity of their analytical process	**117** (77.0%)
The availability of qualified foreign firms	**88** (57.9%)
The reputation of TFEs themselves	**80** (52.6%)

Note: n = 152

TFEs which sought their foreign partners via their shareholders and executives' connections and recommendations were likely to be allied with satisfactory foreign partners (ACL, 1997; UAF, 1997; ASIA, 1997; DS, 1997; KTT, 1997; SRI DHANA, 1997). These TFEs could carefully consider their prospective partners, because they had constructed relationships with their foreign partners for a long period of time prior to alliance establishment (ACL, 1997; UAF, 1997; ASIA, 1997; DS, 1997). Thus, they could thoroughly learn their partners' strategic intentions, goals, perspectives, sincerity and competencies (CATHAY, 1997; SRI DHANA, 1997). In addition, many of the TFEs had an informal business co-operation with their prospective partners, before becoming involved in the formally formed alliances (CATHAY, 1997; SRI DHANA, 1997). Thus, they experienced the advantages and drawbacks of co-operation with their foreign partners before deciding to establish formal international alliances.

In contrast, TFEs that sought information on their perspective partners through their own research department were prone to be ineffective and obtain unsatisfactory partners. This partly resulted from the lack of intensive interaction and contact with foreign partners (EKA, 1997; UNION, 1997). TFEs' executives could not obtain fundamental data and the implicit character of their partners prior to getting engaged (EKA, 1997; UNION, 1997). Also, the TFEs that sought their foreign partners through this method usually had never co-operated with foreign partners before they allied themselves with each other (EKA, 1997; UNION, 1997). It was further insisted that

See the full names of the companies referred in this chapter in table 4.5

"In this respect, these TFEs seldom constructed basic and mutual understanding with their partners and could not prepare themselves well enough to cope with their cross-border collaboration. Furthermore, in this case, gaining proper access to the correct information on foreign partners was troublesome. Some sensitive issues of required data concerning implicit aspects, including trust and sincerity of partners, were not clearly apprehended"

(Interview with director of research department C.L. Sahaviriya, 1997).

Table 7.8

The Chi Square Statistics of a Partner Selection Process Effectiveness and Alliance Performance Variable Cross-Tabulated by a Channel Variable.

Variable	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
EFF	Effectiveness of Partner Selection Process	52.06	.000*	0.50	.000*
PER	Overall Alliance Performance	31.17	.000*	-0.22	.001*

Notes : n = 152

* significant at 0.05 level

.(1) one-tailed test; (2) two-tailed test

From table 7.8, TFEs' channels of approaching partners had significant dependencies with *both effectiveness of foreign partner selection process* and *TFEs' alliance performances* as their Chi Square Statistics occurred in the critical region. The foreign partner selection process effectiveness variable was defined as effective and ineffective. TFEs' channels of approaching partners were defined as four channels, consisting of shareholders' connections, past client relationships, using TFEs' research department, and using reputation of foreign partners themselves (See further details in table 7.1). Regarding the first pair of relationships, TFEs' partner selection process effectiveness was related to their channels of approaching their partners. More specifically, if TFEs approached the foreign partners via either their past customer relationships or their shareholders and executives' connections, their selection procces was more likely to be effective. On the other hand, if they sought their foreign partners by the data from their companies' analysis without prior relationships with the foreign firms, they were not likely to be satisfied with their foreign partners.

The second pair was the relationship between TFEs' approaching channels and alliance performance. Apparently, TFEs' alliance performances were dependent on their channels of

****See the full names of the companies referred in this chapter in table 4.5***

approach. In this respect, if the TFEs approached their prospective partners by deploying past relationships with respect to customers, shareholders, and executives, their alliance performance was prone to be satisfactory. This was because the TFEs that sought their prospective partners using the above methods could acquire and learn more implicit information about the foreign partners. Furthermore, they were able to experience the results of past trading relationships and interactions with their foreign partners before deciding to arrange alliances. This could make the TFEs ready to cope with the complexity of their cross-border alliances.

However, searching for foreign partners without relying entirely upon shareholders' connections sometimes appeared to be successful if TFEs' top executives actively approached their foreign partners via face-to-face discussions and negotiations (JF, 1997). It was also evident that although most of the TFEs applied well-planned criteria on the foreign partner selection process, there were some TFEs that could not obtain the required partners. This was because these TFEs had not experienced complicated alliances, particularly in closely linked and international partnering (CL, 1997; EKA, 1997).

7.6 Relationships between TFE's Criteria and Other Variables

There were interesting relationships between criterion variables and other variables. The Chi Square technique was used to identify the significant relationships as follows. From table 7.9, there were variables associated with TFEs' partner selection criteria that had significant relationships with firm size. Again, in order to satisfy the Chi-square limitation with respect to an unusually small number of expected frequencies, two categories in this table was combined. The respondents' attitudes towards alliance criteria ranged from 1 to 4, 1=least important, 2=less important, 3=more important, and 4=most important. In this case, the two first categories, *least important and less important*, of some variables including CTR06, 07, 08, 09, 10, 11, 12, 13, 14, 15, 16, and 17 were combined to increase the number of expected frequencies and meet the criteria of the Chi-square test.

See the full names of the companies referred in this chapter in table 4.5

The details about firm size variable were indicated earlier in chapter 6. The Chi-Square statistics were calculated and used to test significant dependence between the variables. The following criterion variables were considered dependent on TFEs' size.

The criteria associated with the partner's strategic fit and balance, consisting of *differences in major management styles, consistency of long-term goals, compatible major operational systems, compatible size of foreign partners, and consistent long-term visions of partners' executives (CTR01-CTR05)* were significantly related to TFEs' size. Furthermore, all of their Pearson's correlation coefficients were positive and significant. This meant that the importance of decisions given to all the criteria and size of TFEs moved towards the same direction. To summarise, The larger TFEs tended to give more importance to these criteria. The larger TFEs believed in the critical impact of strategic fit and compatibility between partners on alliance durability more than the smaller ones. Again, it could imply that the larger the TFEs, the more emphasis was put on long-term stability and durability of international alliances.

See the full names of the companies referred in this chapter in table 4.5

Table 7.9

The Chi Square Statistic of Criteria Variables

Cross-Tabulated by Size.

Variables	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
CTR 1	1.Differences in major management styles	65.64	.000*	.58	.000*
CTR 2	2.Consistency of long-term goals	56.85	.000*	.53	.000*
CTR 3	3.Compatible major operational systems	58.18	.000*	.53	.000*
CTR 4	4.Compatible sizes of foreign partners	77.38	.000*	.56	.000*
CTR 5	5.Consistent long-term vision of partners' executives	42.23	.000*	.47	.000*
CTR 6	6.Quality of customer services	8.02	.09	.18	.019*
CTR 7	7.Financial status of partners	8.29	.08	.01	.891
CTR 8	8.International image and reputation of partners	2.02	.731	.03	.671
CTR 9	9.Cross-border experience and expertise	4.51	.341	.15	.064
CTR 10	10.Quality of management teams	7.51	.11	.19	.018*
CTR 11	11.Geographical dispersion of partner's markets	7.78	.09	.15	.063
CTR 12	12.Attitudes towards inter-firm collaboration	3.70	.447	.05	.465
CTR 13	13.Philosophies in respect of human resources	5.62	.22	.04	.615
CTR 14	14.Compatible operational corporate culture	6.53	.162	-.05	.488
CTR 15	15.Consistent business customs of partners	3.56	.467	.00	.922
CTR 16	16.Predominant language used by foreign partners	2.94	.567	-.05	.526
CTR 17	17.Nationality of foreign partners	4.36	.35	-.15	.064

Notes : n = 152
* significant at 0.05 level
.(1) one-tailed test; (2) two-tailed test

Regarding the relationships between TFEs' criteria and their alliance performance, there were six TFEs' criteria which were significantly related to an alliance performance variable (See table 7.10). The details about performance variables were indicated earlier in chapter 6. In this test, the first two categories of all criterion variables were combined in order to meet the requirement of the Chi-square test. This first one was *"differences in major managerial styles" (CTR01)*. Its Chi Square statistic and Pearson's correlation coefficient illustrated the relationships of dependence between the two variables. More satisfaction in alliance

***See the full names of the companies referred in this chapter in table 4.5**

performance related to greater importance given to a criterion associated with differences in managerial styles. Therefore, TFEs exhibiting their satisfaction in overall alliance performance were likely to pay close attention to considering partners' management styles in a foreign partner selection process (See Table 7.10).

In addition, criterion variables with respect to *consistency of long-term goals* (CTR02), *compatible major operational systems (CTR03), compatible size of foreign partners (CTR04), quality of customer services (CTR06),* and *consistent business customs of partners (CTR15)* also had a significant relationship of dependence on TFEs' alliance performance variables. From the statistical results, the employment of strategic criteria associated with *consistent long-term goals, compatible managerial system, compatible size, customer service quality, and partners' business customs* with different levels of importance affected TFEs' alliance performance. Apart from the above, there was no adequate evidence to demonstrate a relationship of dependence between the other criterion variables and TFEs' size.

See the full names of the companies referred in this chapter in table 4.5

Table 7.10

The Chi Square Statistic of Criteria Variables

Cross-Tabulated by Alliance Performance Variable.

Variables	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
CTR 01	1.Differences in major management styles	13.30	.038*	.18	.02*
CTR 02	2.Consistency of long-term goals	13.94	.030*	.13	.097
CTR 03	3.Compatible major operational systems	18.85	.004*	.10	.197
CTR 04	4.Compatible sizes of foreign partners	14.40	.02*	.09	.254
CTR 05	5.Consistent long-term vision of partners' executives	8.10	.230	.09	.226
CTR 06	6.Quality of customer services	14.74	.022*	.09	.256
CTR 07	7.Financial status of partners	7.54	.273	-.00	.927
CTR 08	8.International image and reputation of partners	7.46	.279	.043	.597
CTR 09	9.Cross-border experience and expertise	4.34	.630	.064	.430
CTR 10	10.Quality of management teams	6.23	.397	.13	.105
CTR 11	11.Geographical dispersion of partner's markets	1.50	.959	-.02	.783
CTR 12	12.Attitudes towards inter-firm collaboration	12.04	.061	.115	.156
CTR 13	13.Philosophies in respect of human resources	10.86	.092	.051	.528
CTR 14	14.Compatible operational corporate culture	4.04	.671	.107	.186
CTR 15	15.Consistent business customs of partners	12.82	.045*	.09	.254
CTR 16	16.Predominant language used by foreign partners	3.72	.713	-.12	.116
CTR 17	17.Nationality of foreign partners	3.99	.677	-.149	.065

Notes : n = 152
* significant at 0.05 level
.(1) one-tailed test; (2) two-tailed test

From the cross tabulation and Chi square analysis, I also discovered interesting relationships between ***types of TFEs' alliance*** and the ***strategic criteria variable.*** The types of TFEs' alliances were categorised as non-equity alliances, minority equity alliances, and joint ventures. From the table 7.11, there was a significant statistical relationship between the *type variable* and *differences in major management styles* (CTR 01) in respect of which its Chi Square statistic fell in the critical region. Therefore, types of TFEs' alliances, *including non-equity, minority-equity, and joint venture,* had an impact on the selection criteria associated with *differences in major management styles.* It could be inferred that the more the degree of

***See the full names of the companies referred in this chapter in table 4.5**

equity participation in the TFEs' alliances, the greater the emphasis was put on *differences in management styles* criteria.

Table 7.11

The Chi Square Statistics of Managerial System Variable

Cross-Tabulated by a Type Variable.

Variable	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
CTR01	Differences in major management styles	20.55	0.002*	0.22	0.006*

Notes : n = 152
* significant at 0.05 level
.(1) one-tailed test; (2) two-tailed test

There was another intriguing statistical relationship. That is, the relationship between the type and criteria variables, with respect to *individual attributes of foreign partners,* consisting of official language and nationality variables, which is presented in table 7.12. From the Chi square statistics, it could be inferred that the type of TFEs alliances affected the implementation of the criteria. The more the degree of equity participation in alliances, the greater the emphasis was placed on criteria associated with the individual attributes of their partners.

Table 7.12

The Chi Square Statistics of Criteria Variables associated with Individual Attributes

Cross-Tabulated by a Type Variable.

Variable	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
CTR16	Predominant language	52.17	.000*	0.35	.000*
CTR17	Nationality of foreign partner	72.57	.000*	0.37	.000*

Notes : n = 152
* significant at 0.05 level
.(1) one-tailed test; (2) two-tailed test

See the full names of the companies referred in this chapter in table 4.5

7.7 Conclusions

This chapter was centred on how TFEs sought and allied themselves with foreign partners. Mostly, TFEs sought their foreign partners via recommendations and connections of their shareholders and top executives. They also developed their alliances from past customer relationships. This meant that TFEs normally used the previous relationships and connections with their prospective partners as a base for alliance development. TFEs' executives also insisted that they paid significant attention to the partner selection process. They were likely to apply their criteria to the partner selection process. Thus, they were highly likely to arrange well-planned, rather than emergent, alliances. Furthermore, the majority of TFEs were satisfied with their foreign partners. The influencing factors affecting the effectiveness of foreign partner selection process consisted mainly of the past relationship between TFEs and their prospective partner, the validity of TFEs' analytical process, and the availability of qualified foreign firms. All of these points were of important concern when implementing the selection process.

Regarding the selection criteria of TFEs' cross border alliances, TFEs focused on the criteria associated with "***synergy and complementary competencies***". They were in need of strategic assets and sophisticated skills in order to restructure and advance themselves. They also stressed the importance of "***strategic fit and balance***" as well as "***consistent operational culture***". These factors caused the smoothness and durability of their co-operation, which resulted in long-term development of TFEs. However, TFEs did not pay significant attention to the criteria with respect to "***pure cultural issues or individual attributes***" of foreign partners. The issues were regarded as minor points because TFEs realised that these differences were inevitable and could not directly affect the performances of co-operation. Moreover, the differences in the unique characters of two firms should be manageable if their collaborations are based on mutual benefit and understanding.

The next, eighth, chapter moves on to another issue of international alliance formation, TFEs' alliance timing determination. The reasons why TFEs choose to develop their co-operation at the time are revealed. Also, the performance of TFEs' cross-border alliances is also discussed.

See the full names of the companies referred in this chapter in table 4.5

Chapter 8 Strategic Timing and Performance of TFEs' International Alliances: Survey Results

8.1 Introduction

This chapter involves the strategic timing and performance of TFEs' cross-border alliances. The chapter begins with the first signal of TFEs' alliance timing, the attractiveness of the industry to foreign firms. Relevant aspects of the Thai financial industry at the time of alliance establishment are analysed. The second signal of TFEs' alliance timing, the relative competitive positions, is also presented. All issues affecting TFEs' competitive positions are thoroughly discussed. Further, the TFEs' attractiveness and initial approach of their alliances are reported. The important reasons behind establishing alliances at a particular time are also revealed. Moreover, the subsequent section exhibits various aspects of TFEs' alliances' performance. The reasons for TFEs' alliance termination and their needs for alliance improvement are also mentioned in the final section.

8.2 The Timing of TFEs' International Alliances

8.2.1 Industry Attractiveness

The first condition employed to signal the timing of alliances was the attractiveness of the Thai financial industry. The important elements that contributed directly to the prosperity of the industry at the TFEs' time of alliance were investigated. The tenth hypothesis involved; $H_{10}o$: *Thai Financial Enterprises (TFEs) are not likely to establish international co-operative arrangements with their foreign partners when at the same time they are operating in industry conditions that are attractive to potential foreign partners.* $H_{10}a$: *Thai Financial Enterprises (TFEs) are likely to establish international co-operative arrangements with their foreign partners when at the same time they are operating in industry conditions that are attractive to potential foreign partners.* The results of the various conditions in the industry at the time of alliance are presented in table 8.1.

Table 8.1 exhibits the opinions of TFEs' executives with respect to the situation in the Thai financial industry at the time that their international alliances were formed. These are called

See the full names of the companies referred in this chapter in table 4.5

"***industry attractiveness variables***". The opinions ranged from **strongly disagree** to **strongly agree**. According to TFEs' opinions towards *an adequate amount of qualified personnel* in the Thai financial industry, 55.9 per cent of TFEs' executives agreed that there were sufficient qualified staff at the time of alliance. 4.6 per cent of all respondents strongly agreed on such an issue. However, 37.5 per cent and 2.0 per cent of opinions were of disagreement and strong disagreement respectively. In general, TFEs' executives were satisfied with adequacy of human resources at the time of alliance although some of them felt they were unsatisfactory. However, many executives were still questioning the advanced quality of their staff at the present time and in the near future.

Table 8.1

Attractiveness of the Thai Financial Industry and Alliance Timing

Conditions	Strongly Disagree	Disagree	Agree	Strongly Agree	Total	Means
1. An Adequate Amount of Qualified Personnel	**3** (2.0%)	**57** (37.5%)	**85** (55.9%)	**7** (4.6%)	**152** (100.0%)	**2.63**
2.Sensible Financial Policies	**2** (1.3%)	**33** (21.7%)	**86** (56.6%)	**31** (20.4%)	**152** (100.0%)	**2.96**
3.Sufficient Capital and Financial Resources	**0** (0.0%)	**21** (13.8%)	**77** (50.7%)	**54** (35.5%)	**152** (100.0%)	**3.22**
4.Support from Government Policies	**2** (1.3%)	**23** (15.1%)	**83** (54.7%)	**44** (28.9%)	**152** (100.0%)	**3.11**
5.Attractiveness of the Thai Financial Markets	**2** (1.3%)	**9** (5.9%)	**64** (42.1%)	**77** (50.7%)	**152** (100.0%)	**3.42**
6.Storng Demand in the Markets	**1** (0.7%)	**8** (5.3%)	**68** (45.0%)	**75** (49.0%)	**152** (100.0%)	**3.42**
7.High Volatility in the Industry's Demand	**0** (0.0%)	**19** (12.6%)	**78** (51.6%)	**55** (35.8%)	**152** (100.0%)	**3.23**
8.Satisfactory performance of Related and Supporting Industries	**1** (0.7%)	**26** (17.1%)	**100** (65.8%)	**25** (16.4%)	**152** (100.0%)	**2.98**
9.Intense Competitive Conditions	**0** (0.0%)	**16** (10.6%)	**94** (61.8%)	**42** (27.6%)	**152** (100.0%)	**3.17**

Notes: n = 152
Scores ranging from 1-4; Strongly disagree=1, Strongly agree=4

Regarding sensible financial policies and regulations, the majority of TFEs' executives believed that the main financial and monetary policies being deployed were practical and sensible at the time of alliance (20.4 percent on strongly agree and 56.6 per cent on agree). The regulations were efficient enough to facilitate financial growth. Nonetheless, a number of TFEs executives insisted that all regulation ought to be updated and more flexible.

It was widely believed that there were *sufficient capital and financial resources* at the time of the alliance (35.5 per cent on strongly agree and 50.7 per cent on agree). It could be

See the full names of the companies referred in this chapter in table 4.5

implied that TFEs' international alliances were more likely to be established when the liquidity in the financial markets was high. Recently, TFEs' executives believed that the Thai financial industry had also received *support from government policies.* The empirical data reported that the industry was aided by government policies at the TFEs' time of alliance. This issue was strongly agreed, and agreed by 28.9 per cent and 54.7 per cent of respondents respectively. The executives anticipated that the Thai government had attempted to launch supporting measures in order to promote the industry's prosperity. Meanwhile, TFEs' executives strongly agreed (50.7%) and agreed (42.1%) that the *Thai financial markets were attractive* to foreign investors when TFEs developed cross-border alliances.

With reference to *the demand of the Thai financial markets*, the results showed that there was a good prospect of demand for financial services in the financial industry. TFEs' executives stated that there was *high demand* at their time of alliance (49.0 per cent on strongly agree and 45.0 per cent on agree). This strong demand could strengthen the industry's competitive advantage and facilitate the establishment of an alliance. This also helped promote mutual benefits between partners of the alliance. However, regarding *the volatility in the industry's demand,* the majority of respondents agreed that there was a drastic change in the industry's demand (See Table 8.1). It meant that changes in the Thai financial industry's demand associated with styles, attributes, and purchasing powers existed at the time of alliance.

The next consideration of industry attractiveness of TFEs was *the satisfactory performance of supporting and related industries.* These industries, for example, included banking and other finance-related industries. At the time of alliance, TFEs' executives considered the situation and performance of these industries to be satisfactory (16.4 per cent on strongly agree and 65.8 per cent on agree). In short, at the time that TFEs' alliances were established, the financially related industries were performing well. Nonetheless, during TFE's alliance establishment time, *the industry's competitive condition was intense* (27.6 per cent on strongly agree and 61.8 per cent on agree). The high level of competition in the market probably made the industry less attractive.

See the full names of the companies referred in this chapter in table 4.5

According to the opinions of the TFEs' executives, the overall conditions affecting the attractiveness of the Thai financial industry at the time of alliance was favourable to participants. Even though there was demand volatility and intense competitive situations existing in the industry at that time, the current and long-term prospect of the industry was promising. With reference to the situation, the Thai financial industry should be attractive to international investors when they were establishing an alliance. Thus, the tenth null hypothesis is rejected and the alternative one is accepted. That is, *Thai Financial Enterprises (TFEs) are likely to establish international co-operative arrangements with their foreign partners when at the same time they are operating in industry conditions that are attractive to potential foreign partners.*

According to interviews, TFEs preferred to ally themselves with their foreign partners when ***the overall liquidity*** in the Thai financial markets was considered high (ACL, 1997; HSBC, 1997; TFS, 1997; SCB, 1997; UAF, 1997; ASIA, 1997; DS, 1997). Also, ***demand conditions*** at the chosen time of alliance should be at a high level and demonstrate a strong potential to prosper in the future (TFS, 1997; SCB, 1997; UAF, 1997; ASIA, 1997; DS, 1997; FIRST BANGKOK, 1997). These two aspects were likely to be TFEs' two most important conditions, as high market demand and liquidity signalled a satisfactory state of the financial industry. Also, TFEs tended to arrange alliances when finance-related industries were performing well because of the higher attractiveness to the prospective foreign partners (ASIA, 1997; ACL, 1997; NITHIPAT, 1997; BOOK CLUB, 1997; DS, 1997; NAVA, 1997). Usually, the situation in the finance and securities industry and the finance-related industries significantly affected each other. The current and future prosperity of TFEs depended on the whole financial system in Thailand. Moreover, other industries appearing to be major clients of the finance industry, such as property, manufacturing, export, and telecommunication industries, significantly influenced the performance of the finance industry.

According to the TFEs' attitudes towards *government support*, the majority of them agreed that they had been supported and encouraged by public organisations (HSBC, 1997; ACL, 1997; DS, 1997; BOOK CLUB, 1997; DS, 1997; NAVA, 1997). Nevertheless, there were plenty of complaints from TFEs' executives that the existing regulations were inefficient and obsolete (SCB, 1997; POON, 1997). Also, decent financial development plans lacked

See the full names of the companies referred in this chapter in table 4.5

efficient implementation (SCB, 1997; SCF, 1997; THAI OVERSEAS, 1997). In addition, as the Thai financial industry was in a dynamically changing and developing stage, there were a number of errors and misleading rules awaiting correction. However, the establishment of the SEC (Securities Exchange Commission) in 1992, had fostered modern and effective policies as well as helping to solve problems in the industry (ASIA, 1997; ACL, 1997; DS, 1997; NAVA, 1997).

With reference to the ***human resources*** of the financial industry, most TFEs' executives admitted that there was a shortage of qualified and professional personnel. However, there was no serious problem pertinent to human resources in the industry. As the work in the financial industry was considered to be a highly paid job, the industry had become a centre for highly educated people graduating from abroad (SCF, 1997; SCB, 1997; KK, 1997). There were also a number of smart and capable personnel from other industries coming to work in the financial industry (ACL, 1997; DS, 1997; SCB, 1997; KTT, 1997). Moreover, some advanced and sophisticated technicians were recruited from foreign countries in order to operate and train the TFEs' domestic staff (THAI OVERSEAS, 1997; FIRST BANGKOK, 1997).

Further, there were some relationships between industry attractiveness variables and a size variable, which are presented in table 8.2. There were only one industry attractiveness variable associated with TFEs' industry attractiveness that had sufficient evidence to demonstrate their dependence on a size variable. The details on size variable were indicated earlier in chapter 6. Again, in order to satisfy the Chi-square limitation with respect to an unusually small number of expected frequencies, two categories in this table was combined. The respondents' attitudes towards alliance timing ranged from 1 to 4, 1=strongly disagree, 2=disagree, 3=agree, and 4=strongly agree. In this case, the first two categories, *strongly disagree* and *disagree*, of some variables including INT1, 2, 4, 5, 6, and 8 were combined to increase the number of expected frequencies and meet the criteria of the Chi-square test. This method is also applied in table 8.2 and 8.3.

See the full names of the companies referred in this chapter in table 4.5

Table 8.2

The Chi Square Statistic of Industry Attractiveness Variables Cross-Tabulated by Size.

Variable	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
INT 1	An adequate amount of qualified personnel	7.13	.129	-.15	.052
INT 2	Sensible financial policies	3.43	.487	.081	.320
INT 3	Sufficient capital and financial resources	4.82	.305	-.01	.823
INT 4	Support from government policies	11.29	.023*	-.11	.175
INT 5	Attractiveness of the Thai financial markets	7.58	.108	.06	.395
INT 6	Strong demand in the markets	5.26	.260	.065	.426
INT 7	High volatility in the industry's demand	1.07	.897	.019	.816
INT 8	Satisfactory performance of related and supporting industries	9.26	.054	.187	.021*
INT 9	Intense Competitive Conditions	5.65	0.22	-0.015	0.85

Notes : n = 152
* significant at 0.05 level
.(1) one-tailed test; (2) two-tailed test

The first variable was *"support from government policies"* at the time of establishing an alliance. Its Chi Square statistic fell in the critical region. Thus, the researcher concluded that the executives of different size TFEs had different opinions towards government support when selecting a suitable timing for their alliances.

Also, *the test of independence between various industry attractiveness variables and a performance variable* was made by employing the Chi Square analysis. From table 8.3, INT3 was significantly related to TFEs' alliance performance. Thus, the level of realised performance of TFEs' alliances was significantly related to an industry attractiveness variables associated with *sufficient capital and financial resources* (See Table 8.3).

See the full names of the companies referred in this chapter in table 4.5

Table 8.3

The Chi Square Statistic of Industry Attractiveness Variables Cross-Tabulated by Performance Variable

Variable	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
INT 1	An adequate amount of qualified personnel	4.85	.563	-.05	.469
INT 2	Sensible financial policies	3.84	.698	.03	.714
INT 3	Sufficient capital and financial resources	13.45	.036*	.01	.985
INT 4	Support from government policies	6.89	.331	.08	.304
INT 5	Attractiveness of the Thai financial markets	9.74	.135	.08	.299
INT 6	Strong demand in the markets	9.74	.135	.05	.495
INT 7	High volatility in the industry's demand	8.72	.189	-.10	.207
INT 8	Satisfactory performance of related and supporting industries	7.25	.297	.08	.332
INT 9	Intense Competitive Conditions	6.65	0.35	-0.04	0.58

Notes : n = 152
* significant at 0.05 level
.(1) one-tailed test; (2) two-tailed test

8.2.2 Relative Competitive Position of TFEs

As the competitive position of a partner company influenced the effectiveness and failure of collaboration, table 8.4 presents the TFEs' competitive positions at their alliance establishment time. In this respect, the eleventh hypothesis involved is; H_{11}o: *When Thai Financial Enterprises (TFEs) develop international strategic alliances, they do not have relatively strong competitive positions, compared with other rivals in the financial industry.* H_{11}a: *When Thai Financial Enterprises (TFEs) develop international strategic alliances, they have relatively strong competitive positions, compared with other rivals in the financial industry.*

See the full names of the companies referred in this chapter in table 4.5

Table 8.4 TFEs' Competitive Position and Alliance Timing

Content	Firm's position relative to industry average					
	Very Weak	Weaker than average	Stronger Than average	Very Strong	Total	Means
1.Accessibility to Target Customers	0 (0.0%)	33 (21.7%)	94 (61.8%)	25 (16.5%)	152 (100.0%)	2.95
2.Geographical Dispersion of Existing Markets	0 (0.0%)	35 (23.0%)	84 (55.3%)	33 (21.7%)	152 (100.0%)	2.99
3.Relationships with Existing Customers	0 (0.0%)	19 (12.5%)	90 (59.2%)	43 (28.3%)	152 (100.0%)	3.16
4.A Number of Physical Branches	20 (13.2%)	63 (41.4%)	56 (36.8%)	13 (8.6%)	152 (100.0%)	2.41
5.Location Advantage of Firm's Branches	10 (6.6%)	73 (48.0%)	55 (36.2%)	14 (9.2%)	152 (100.0%)	2.48
6.A Variety of Financial Services offered	1 (0.7%)	30 (19.7%)	88 (57.9%)	33 (21.7%)	152 (100.0%)	3.01
7.Efficiency of Customer Services	0 (0.0%)	18 (11.8%)	97 (63.8%)	37 (24.4%)	152 (100.0%)	3.13
8.Technical Skills of Staff	0 (0.0%)	21 (13.8%)	103 (67.8%)	28 (18.4%)	152 (100.0%)	3.03
9.Service Ability of Staff	0 (0.0%)	18 (11.8%)	105 (69.1%)	29 (19.1%)	152 (100.0%)	2.87
10.Firm' s Overall Image and Reputation	1 (0.7%)	33 (21.7%)	79 (52.0%)	39 (25.6%)	152 (100.0%)	3.05
11.Relative Firm's Size	5 (3.3%)	45 (29.6%)	67 (44.1%)	35 (23.0%)	152 (100.0%)	3.07
12.Firm's Cost of Capital	2 (1.3%)	41 (27.0%)	98 (64.5%)	11 (7.2%)	152 (100.0%)	2.78
13.Average Fees for the Firms' Financial Services	1 (0.7%)	30 (19.7%)	109 (71.7%)	12 (7.9%)	152 (100.0%)	2.87

Notes: n = 152

Scores ranging from 1-4; Very weak=1, Very strong=4

In the category of *accessibility to target customers*, at the time of alliance, TFEs' executives believed that the companies possessed strong accessibility to target customers relative to the industry average (61.8 per cent on stronger than average and 16.5 per cent on very strong). This opinion was consistent with the following attitude: *geographical dispersion of existing markets* of TFEs at that time was also considered to be larger than average (55.3%) and very large (21.7%). This meant that TFEs usually had better customer accessibility in order to induce the firms' market competitiveness when alliances were being established. Moreover,

See the full names of the companies referred in this chapter in table 4.5

TFEs demonstrated their strong relationships with their target clients at the time. The executives assessed their firms' *relationships with existing customers* that were stronger than average (59.2%) and very strong (28.3%).

A number of physical branches and their *location advantages of the firm's branches* were also taken into consideration. The number of physical branches was regarded as being slightly weak (41.4 per cent on weaker than average and 13.2 per cent on very weak). Similarly, the evaluation of *their location advantage* demonstrated similar results (48.0 per cent on weaker than average and 6.6 per cent on very weak). The results were affected by the regulations of the bank of Thailand, through which TFEs had been restricted in setting up new branches. Thus, there were only very few TFEs obtaining special permission to establish new full-serviced branches. Furthermore, the areas serviced of these new branches must be approved by the bank. That was why a number of TFEs did not realise their advantage with regard to this issue.

The variety of financial services offered and *efficiency of customer services* offered by TFEs were also evaluated. At the time of alliance, the ability of TFEs to provide their customers with a wide range of services was considered stronger than average (57.9%) and very strong (21.7%). It could imply that TFEs allying themselves with foreign partners had more sophisticated product lines than others. *TFEs' efficiency of customer services offered* were also superior (63.8 per cent on stronger than average and 24.4 per cent on very strong). To summarise, TFEs' executives believed that the superior services of TFEs could make them more eligible when they were initiating alliances.

Staff quality was another critical success factor for TFEs. *Technical skills of staff* were stronger than average (67.8%) and very strong (18.4%). Apart from the technical skills, service knowledge of staff was also assessed. *Service ability of staff* was regarded as being stronger than average (69.1%) and very strong (19.1%). Both technical skills in operations and the service ability of TFEs' staff were relatively advanced at the time of alliance. Therefore, at the time of alliance, TFEs possessed qualified staff to initiate quality financial services to respond to customer needs.

See the full names of the companies referred in this chapter in table 4.5

The firm's overall image and reputation received a score of 52.0 per cent on stronger than average and 25.6 per cent on very strong. Likewise, *TFEs' relative firm's size*, which could affect their stability and confidence in a company, was larger than average (44.1%) and very large (23.0%). It was more likely that TFEs received a lot of credibility and recognition when they initiated their cross-border alliances. In addition, as the size of TFEs at that time was relatively large, they could gain more confidence and respect from their prospective partners.

Price competitiveness, consisting of a firm's cost of capital and average fees for the firms' financial services charged to customers, was also of concern. As had been implied by the empirical results, the overall TFEs' cost of capital at the time of alliance were regarded as 64.5% on stronger than average and 7.2% on very strong. Simultaneously, TFEs' *fees of financial services charged to customers* received similar responses. This confirmed that TFEs at that time were in favourable situations, due to their financing capacity and price competitiveness. Thus, TFEs should enjoy financial health and credibility while they were establishing their alliances.

Mostly, TFEs' executives agreed that their competitive positions, compared with the industry average, were relatively strong when they established international alliances. Thus, the researcher could infer that TFEs' executives tended to develop alliances when they were in satisfactory competitive positions. Also, at that time, they should not have any serious difficulties making them inferior to their prospective foreign partners. Thus, the eleventh null hypothesis is rejected and the alternative one is accepted. That is, *when Thai Financial Enterprises (TFEs) develop international strategic alliances, they have relatively strong competitive positions, compared with other rivals in the financial industry.*

Supported by information from the interviews, TFEs were most concerned with *their market competitiveness* at the time of alliance, relative to their rivals. They could access target customers via one-stop services and firmly established branches scattered around the major economic cities (DS, 1997; S-ONE, 1997; ACL, 1997; NAVA, 1997). Also, at their chosen time, they possessed strong relationships with their target markets (DS, 1997; S-ONE, 1997; ACL, 1997; NAVA, 1997). Further, they insisted that they had intelligent marketing units responsible for developing databases associated with client needs, market demands, and

***See the full names of the companies referred in this chapter in table 4.5**

potential customers (DS, 1997; S-ONE, 1997). In brief, all the TFEs believed that if they had strong relative market competitiveness, they were likely to receive greater benefits from alliances via a combination of local marketing strengths of TFEs and the regional networks of their foreign partners (DS, 1997; SRI DHANA, 1997; UNITED, 1997; UAF, 1997).

However, a few TFEs developed their alliances with relatively low market competitiveness. This was because at that time they were very small, local, and newly established (EASTERN, 1997). Likewise, they lacked local and efficient distribution networks and customer service expertise. However, they arranged alliances because of a mandate from major shareholder. Further, they believed that they could not boost up their market competitiveness on their own because of limited resources. Thus, they decided to ally themselves with powerful partners and wished to utilise the synergy gained from co-operation to strengthen their competitive positions (EASTERN, 1997; CL, 1997; FIRST BANGKOK, 1997).

Other aspects involved *image and reputation, staff's skills and expertise, financial stability, and cost of capital.* TFEs were likely to make alliances when their public images were respectable (THAI OVERSEAS, 1997; BOOK CLUB, 1997; DS, 1997). Obviously, TFEs' image and reputation were reliant upon their major shareholders (DS, 1997; KTT, 1997; KRUNG THAI, 1997; NAVA, 1997). In particular, TFEs mainly owned by recognised commercial banks seemed stable and had a good image. Interestingly, in the Thai financial environment, Thai customers preferred Thai commercial banks to foreign banks as shareholders in order to strengthen TFEs' images and reputation (SRI DHANA, 1997). It was widely believed by public groups that a relationship with a Thai bank was more stable, long-lasting, and helpful than collaboration with a foreign bank (SRI DHANA, 1997). Clearly, TFEs' executives insisted that their public image must be built up in parallel with financial stability. The vast majority of TFEs' executives informed us that they did not have any serious financial problems and instabilities at their time of alliances. This is because no foreign firms would like to take risks by allying themselves with financially ailing TFEs (PRIME, 1997; MCC, 1997; NAVA, 1997). Moreover, at the time TFEs had high price competitiveness due to their relatively low cost of capital (BOOK CLUB, 1997; FIN-ONE, 1997; SICCO, 1997).

See the full names of the companies referred in this chapter in table 4.5

Regarding staff quality and their customer service ability, most of the TFEs possessed sufficient quality human resources. At least, they insisted that they did not have a serious trouble associated with quality and ability of staff, as this could lead them to an inefficient international alliance (ASIA, 1997; ACL, 1997; BOOK CLUB, 1997; DS, 1997; NAVA, 1997). They further explained that lack of sufficient qualified staff led to problems in respect of communication, joint operations, technology and skill transfer, as well as the delegation of responsibility between partners (DS, 1997).

Nevertheless, sometimes TFEs seriously lacked qualified human resources and the ability to provide their clients with quality services. In this respect, they had to develop international co-operation when their staff were not ready. In reality, the situation could cause subsequent problems associated with skill transfer and English communication (BARA, 1997; FIRST BANGKOK, 1997; EASTERN, 1997). However, they had no better alternatives as they considered that potential benefits from alliances were supposed to offset the possible disadvantages.

Regarding the relationships between *competitive positions of TFEs* and *a size variable,* at the 5% level of significance, all of the variables were significantly dependent on the size variable (See table 8.5). The first two categories, *very weak* and *weak*, of variables COM4, 5, 6, 8, 9, 12, and 13 were also combined in order to meet the criteria of the Chi-square test. This method was applied to table 8.5 and 8.6.

It was evident that all the COM variables showed strong dependence on TFEs' sizes. In addition, the COM variables positively correlated with the size variable and their correlation coefficients were also significant at the 5% level (See table 8.5).

See the full names of the companies referred in this chapter in table 4.5

Table 8.5

The Chi Square Statistic of Competitive Position Variables Cross-Tabulated by Size

Variable	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
COM 1	Accessibility to target customers	22.90	.000*	.34	.000*
COM 2	Geographical dispersion of existing markets	19.79	.000*	.34	.000*
COM 3	Relationships with existing customers	24.32	.000*	.34	.000*
COM 4	A number of physical branches	34.88	.000*	.46	.000*
COM 5	Location advantages of firm's branches	38.05	.000*	.47	.000*
COM 6	A variety of financial services offered	20.85	.000*	.33	.000*
COM 7	Efficiency of customer services	19.64	.000*	.32	.000*
COM 8	Technical skills of staff	20.51	.000*	.36	.000*
COM 9	Service ability of staff	22.26	.000*	.36	.000*
COM 10	Firm's Overall image and reputation	49.13	.000*	.54	.000*
COM 11	Relative firm's size	53.69	.000*	.56	.000*
COM12	Firm's average cost of capital	10.38	.034*	.22	.005*
COM13	Average fee for the firm's financial services	18.53	.001*	.31	.000*

Notes : n = 152
* significant at 0.05 level
.(1) one-tailed test; (2) two-tailed test

In brief, at the time of the alliance, *the larger TFEs were likely to choose their alliance timing when they were in stronger competitive positions.* This might be because the favourable competitive positions of TFEs meant that they were ready to handle various complicated situations resulting from cross-border alliances. Further, such competitive positions could better attract eligible foreign partners and allow negotiations for better terms of co-operative contracts. This resulted in greater durability and benefits to be gained from the alliances.

In table 8.6, TFEs' competitive position variables are cross-tabulated by a performance variable. The performance variable is divided into four categories, consisting of very unsatisfactory, unsatisfactory, satisfactory, very satisfactory. There were significant relationships between COM 2, 3, 6, 7, 8, 9, 11, 13 and TFEs' alliance performance. Pearson's correlation coefficients of COM 2, 3, 6, 7, 9, 10, and 11 were statistically significant. The

See the full names of the companies referred in this chapter in table 4.5

researcher concluded that the TFEs which constructed alliances when they had *extensive geographical dispersion, strong customer relationships, a wide variety of services offered, high efficiency of customer services, large size, and quality staff* were likely to be satisfied with their alliance performances.

Table 8.6
the Chi Square Statistic of Competitive Position Variables Cross-Tabulated by Performance Variable.

Variable	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
COM 1	Accessibility to target customers	6.67	.351	.075	.352
COM 2	Geographical dispersion of existing markets	16.73	.010*	.18	.019*
COM 3	Relationships with existing customers	17.92	.006*	.19	.015*
COM 4	A number of physical branches	6.84	.335	.11	.150
COM 5	Location advantages of firm's branches	3.46	.749	.11	.163
COM 6	A variety of financial services offered	20.94	.002*	.16	.043*
COM 7	Efficiency of customer services	22.46	.001*	.18	.025*
COM 8	Technical skills of staff	15.99	.013*	.13	.089
COM 9	Service ability of staff	22.17	.001*	.23	.003*
COM 10	Firm's Overall image and reputation	11.21	.08	.20	.013*
COM 11	Relative firm's size	13.37	.037*	.18	.024*
COM12	Firm's average cost of capital	10.43	.107	.07	.363
COM13	Average fee for the firm's financial services	13.78	.032*	.12	.148

Notes : n = 152
* significant at 0.05 level
(1) one-tailed test; (2) two-tailed test

8.3 TFEs' Attractiveness

According to the respondents' opinions, most TFEs (97%) possessed attractiveness to foreign partners when they arranged alliances (See Figure 8.1). The important reasons that promoted TFEs' attractiveness consisted of *their past impressive performance* and *well known groups of shareholders*. Moreover, during the studied period, which was the introductory and growth period of the industry, the other reasons involved high growth potential of their firms, TFEs' flexibility and efficiency, as well as their suitable size for the foreign investment. Moreover, the increasingly important economies of emerging countries,

See the full names of the companies referred in this chapter in table 4.5

including Thailand, were of vital concern to major institutional foreign investors. Therefore, the foreign investors endeavoured to take a significant part in the Thai financial industry.

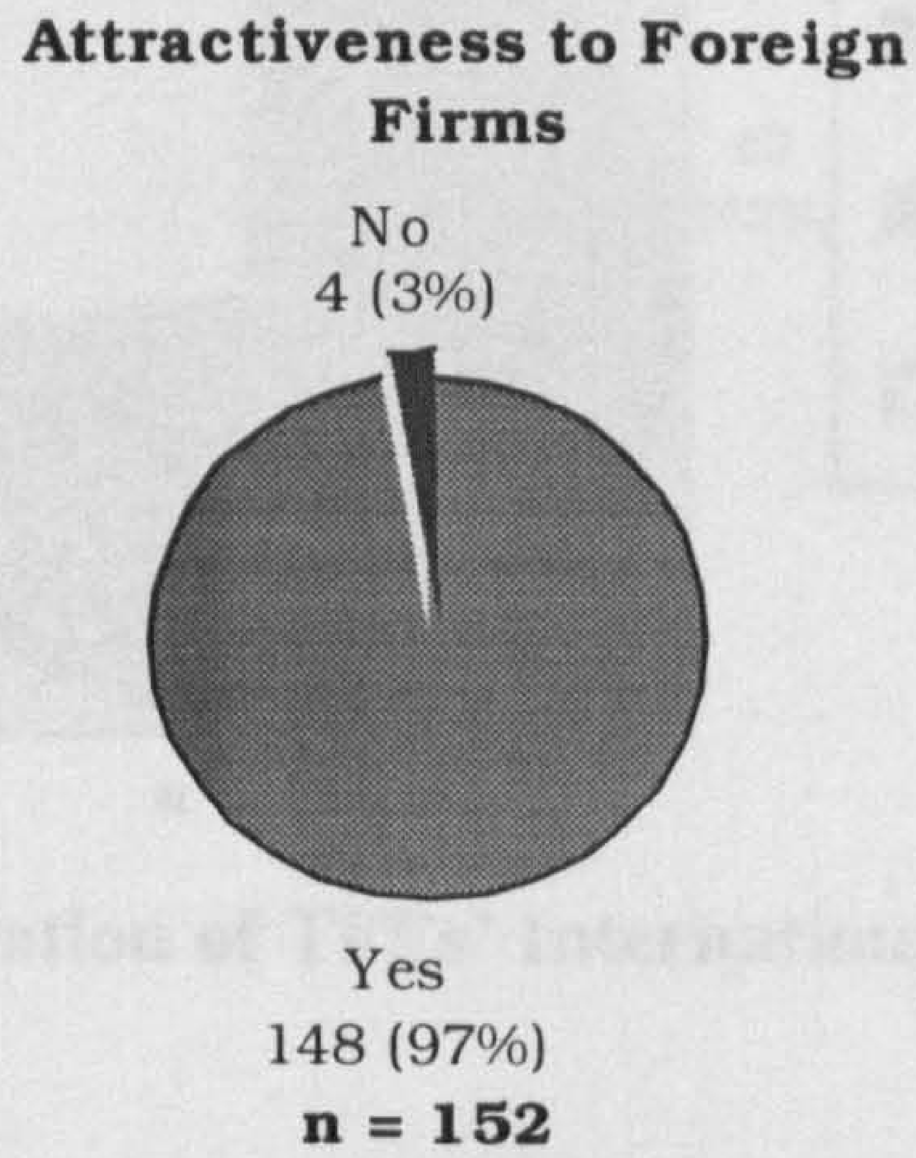


Figure 8.1 TFEs' Attractiveness to Foreign Partners

However, very few respondents (3%) perceived that their companies were internationally unattractive. This was because their firms were small and seriously lacked international experience and communication expertise.

Figure 8.2 sheds light on the issue of the initial approach of TFEs' international alliances. The highest frequency was given to TFEs themselves (42%) as an initiator of the alliance establishment. This was due to encouragement and recommendations from TFEs' shareholders and executives. However, foreign partners also played important roles when initiating the alliances (31%). This also showed the strong intention of foreign firms.

Apart from the above, 27 per cent of respondents reported that both TFEs and foreign partners jointly initiated the alliances. Obviously, TFEs and their partners persuaded each other to establish alliances due to the mutual benefits to be gained. In this respect, TFEs and their partners usually had satisfactory shareholders and executives' relationships before alliance development (ACL, 1997; AITCO, 1997; PAT, 1997).

**See the full names of the companies referred in this chapter in table 4.5*

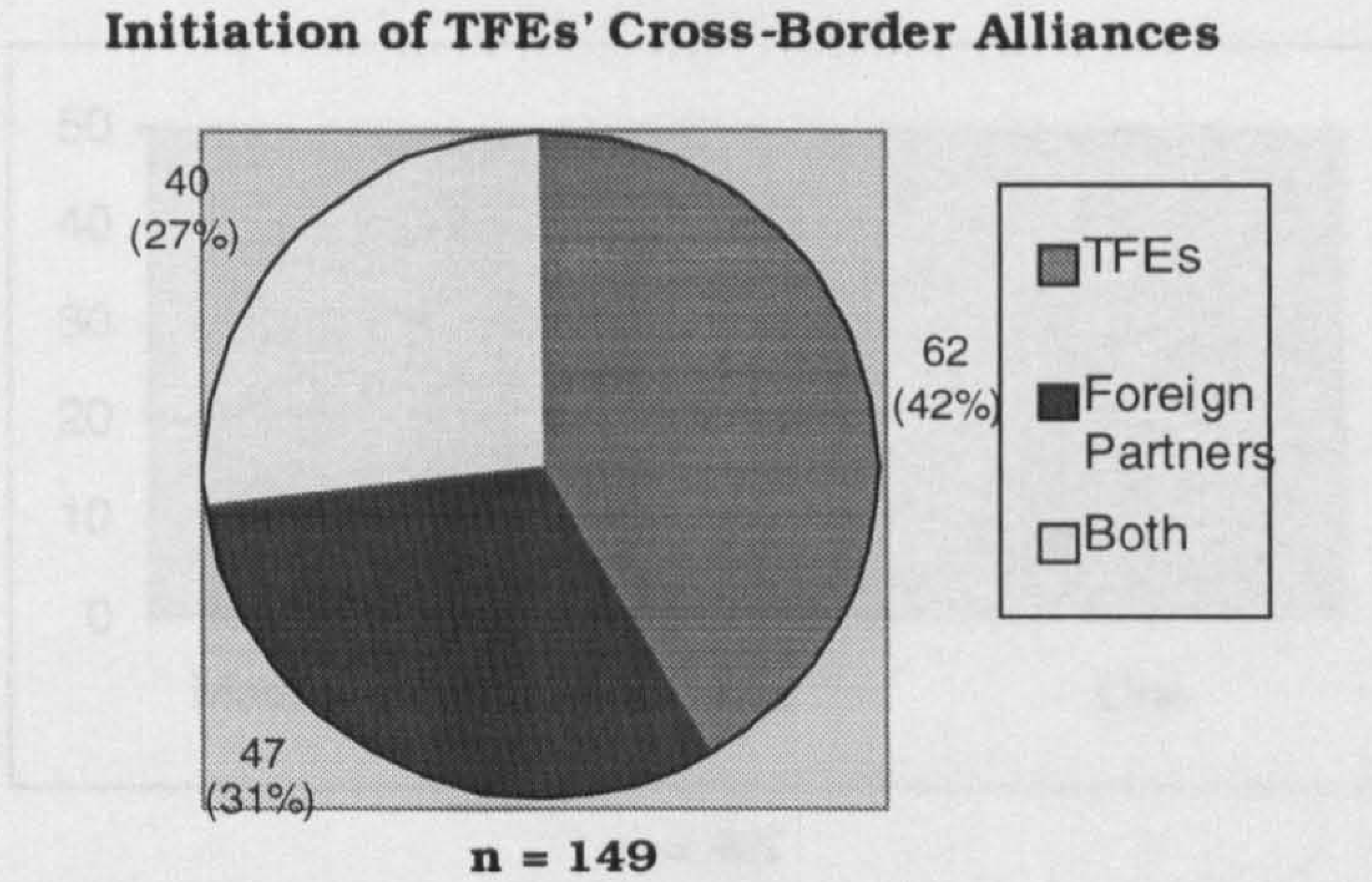


Figure 8.2 Initiation of TFEs' International Alliances

The number of foreign companies approaching TFEs at the alliance establishment time is displayed in figure 8.3. More than half of TFEs' alliances (50.7%) were approached by one foreign company. 13.4 and 35.9 per cent of TFEs' alliances were approached by two or more than two foreign financial firms respectively.

In the case that TFEs were initiators of their alliances, there was a likelihood that these TFEs were aggressive and managed by young, enthusiastic, and well-educated executives (JF, 1997; SCB, 1997; UNION, 1997). These TFEs were likely to be newly established and full of entrepreneurial spirit (JF, 1997; TFT, 1997). They were going to develop alliances in order to quickly achieve goals associated with market shares, commission revenues, and research expertise (S-ONE, 1997; KK, 1997). However, these TFEs had to be competitive and had the potential to prosper. Otherwise, they would not be courageous enough to present themselves to prospective international partners (JF, 1997).

On the other hand, a number of TFEs had been approached by more than one foreign partner. In this respect, the TFEs were relatively strong, mature, and firmly established in the Thai financial industry (SEAMICO, 1997; MCC, 1997; FAS, 1997). Moreover, the TFEs were apparently financially stable and possessed extensive marketing networks (DS, 1997; S-ONE, 1997). Interestingly, there were some TFEs that were initially approached by their foreign partners although they were relatively small and weak. This was because developing equity alliances with these TFEs meant that large amounts of capital were not needed to be invested by the foreign firms (EASTERN, 1997; EKA, 1997).

******See the full names of the companies referred in this chapter in table 4.5***

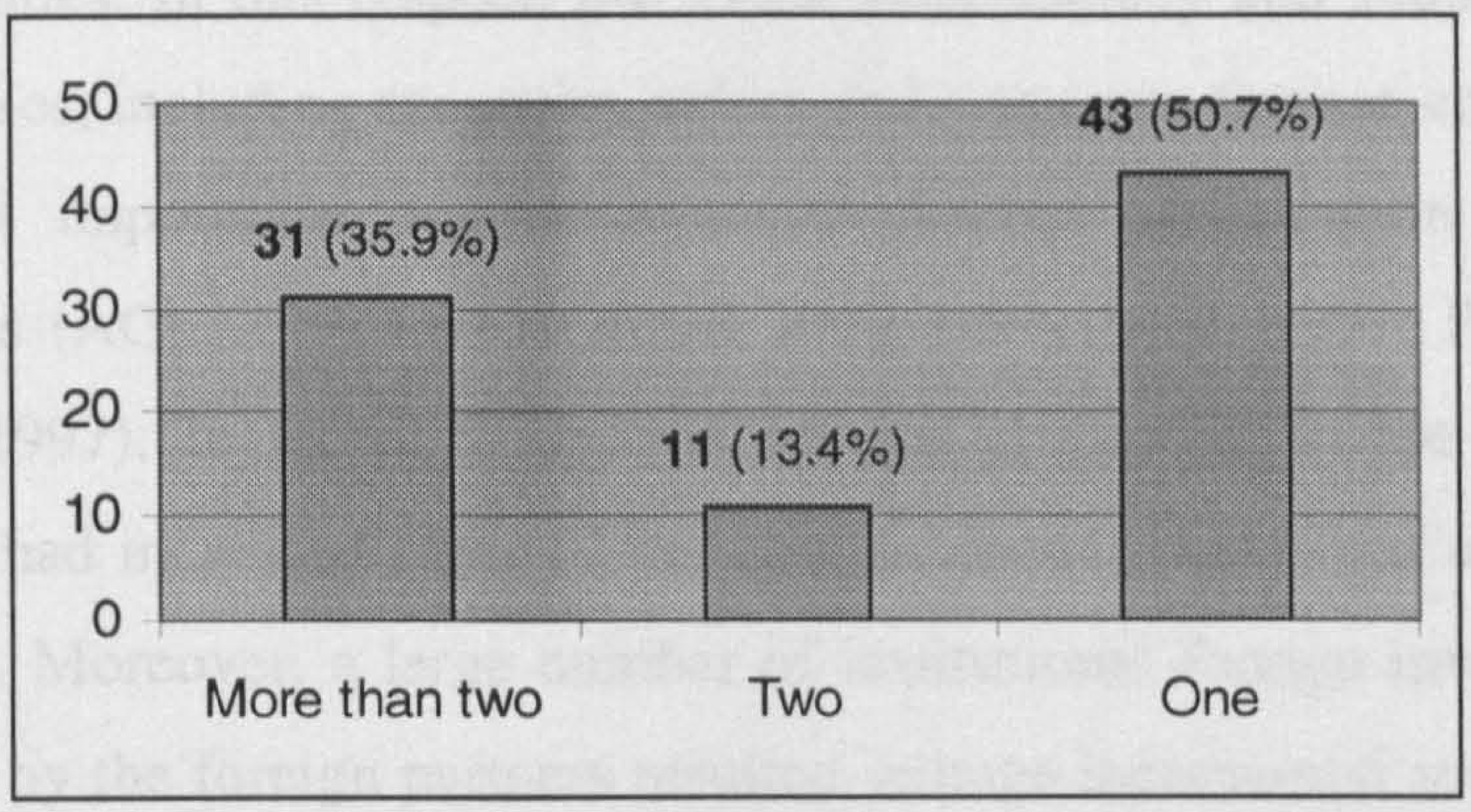


Figure 8.3 Number of Foreign Firms Approaching TFEs

However, there was no clear evidence to conclude that initial approaches made by TFEs resulted in satisfactory foreign partners. Often, although a TFE initially approached a foreign firm, the final decision to ally must be made by both parties (THAI FUJI, 1997; FIN-ONE, 1997; SICCO, 1997; SCF, 1997). Thus, it was possible that the TFEs could not obtain their desired partners (THAI FUJI, 1997; FIN-ONE, 1997; SICCO, 1997; SCF, 1997). Likewise, although the foreign partners made the initial approach for the alliance, there was no guarantee whether or not TFEs will agree to ally themselves with them. Further, there was also no guarantee that the foreign firms initially approaching TFEs would be eligible.

8.4 TFEs' Important Reasons behind TFEs' Alliance Timing Determination

Table 8.7 reveals the strategic reasons behind TFEs' alliance timing. It shows why TFEs wished to establish their alliances when the Thai financial industry was *attractive to foreign partners* as well as *their competitive positions were relatively strong*. From table 8.7, the most important reasons driving TFEs to arrange their cross-border co-operation at that time involved "*the considerable marketing benefits to be achieved*" (33.6 per cent on agree and 63.8 per cent on strongly agree). Most of the TFEs' executives explained that they needed to receive immediate benefits from marketing activities after arranging their alliances. From the interviews, the vast majority of TFEs' executives indicated that they chose to establish their alliances at that time due to gaining immediate and considerable benefits from foreign

See the full names of the companies referred in this chapter in table 4.5

market opportunities. In this respect, the TFEs tremendously and suddenly benefited from foreign client bases, including securities orders and corporate finance cases. This factor was multiplied in its importance due to increased foreign participation in the active Thai financial markets (ACL, 1997; BANGKOK FIN, 1997; SCB, 1997; PRIME, 1997; EKA, 1997; NAVA, 1997). In recent years, the foreign proportion in the Stock Exchange of Thailand (SET) had increased from 10 per cent to about 50 per cent of the total securities trading volumes. Moreover, a large number of institutional foreign investors and corporate clients provided by the foreign partners resulted in huge incremental revenues and plenty of market opportunities (SCB, 1997; PRIME, 1997; EKA, 1997; NAVA, 1997). Thus, TFEs emphasising only domestic clients gradually lost substantial market share if they had no foreign partners to help provide international client bases when the Thai financial markets were bullish and very active.

Table 8.7 TFEs' Important Reasons behind Alliance Timing Determination

TFEs' Strategic Reasons behind Alliance Timing Determination	Strongly Disagree	Disagree	Agree	Strongly Agree	Total	Means
The Scarcity of Eligible Foreign Firms	**22** (14.5%)	**45** (29.6%)	**60** (39.5%)	**25** (16.4%)	**152** (100.0%)	**2.58**
The Substantial Amount of Foreign Partner's Resources and Assets to be quickly gained	**1** (0.7%)	**8** (5.2%)	**67** (44.1%)	**76** (50.0%)	**152** (100.0%)	**3.43**
The Considerable Marketing Benefits to be achieved	**0** (0.0%)	**4** (2.6%)	**51** (33.6%)	**97** (63.8%)	**152** (100.0%)	**3.61**
The Forces from the External Threats	**27** (17.8%)	**66** (43.3%)	**46** (30.3%)	**13** (8.6%)	**152** (100.0%)	**2.30**

Note: n = 152

Scores ranging from 1-4; Strongly disagree=1, Strongly agree=4

Nevertheless, a few TFEs still insisted that they did not pay much attention to alliance timing associated with "*the considerable marketing benefits to be achieved*". These TFEs believed that foreign participation in the SET would decrease in the future due to governmental forces and the development of Thai financial market (TISCO, 1997). This was because the Thai financial industry was supposed to depend more on itself due to the reduction of the country's investment and saving gap (TISCO, 1997). Besides, some of them could seize target foreign clients by themselves via their own international development

See the full names of the companies referred in this chapter in table 4.5

(TISCO, 1997; NITHIPAT, 1997; SEAMICO 1997). Additionally, some conservative TFEs considered that depending on a foreign customer base jeopardised their firms' stability (TISCO, 1997; SCB, 1997). The company believed that foreign clients' orders were just extras added by their alliances. In this case, they concentrated more on local institutional customers, instead of just taking superficial benefits from foreign clients (TISCO, 1997; SCB, 1997).

"*The substantial amount of foreign partners' resources and assets to be quickly gained*" were also a major force for alliance timing. Most TFEs' executives stated that they developed alliances at the time of the alliance in order to gain *a significant amount of resources and assets from foreign partners* (44.1 per cent on agree and 50.0 per cent on strongly agree). Most of the TFEs admitted that they preferred to establish alliances at their time of alliance in order to quickly acquire and utilise their partners' resources (ACL, 1997; SCB, 1997; KTT, 1997; KRUNG THAI, 1997; UAF, 1997; WALL, 1997; FIN-ONE, 1997). Apart from the marketing resources previously mentioned, TFEs greatly needed strategic resources in terms of expertise, skills, competencies, image and reputation, and financial assets. They indicated that at their time of alliance development they could negotiate for better technology transfer and contributions from their partners because of the highly positive climate of the Thai financial industry (KRUNG THAI, 1997; UAF, 1997; WALL, 1997; FIN-ONE, 1997). Also, many TFEs preferred to receive partners' ready-to-use technology rather than self-developed units in order to achieve immediate advantage at the time (FIN-ONE, 1997; KTT, 1997). Further, government support and encouragement at the time helped TFEs to gain more benefit from partners' resources through regulations associated with designing and determining alliance contracts (UAF, 1997; KTT, 1997). Moreover, the TFEs could use the reputations, international market networks, and financial resources of foreign partners to handle cross-border corporate finance cases, such as loan syndication, as well as international financing and underwriting.

On the contrary, some TFEs did not focus on resource benefits for determining timing of alliance. They believed that they were not ready to quickly learn sophisticated knowledge and use instant technology package from their foreign partners due to significant differences in stages of development between TFEs and their foreign partners (S-ONE, 1997; THAI OVERSEAS, 1997). Moreover, they were not confident in the effectiveness of technology

See the full names of the companies referred in this chapter in table 4.5

and resource transfer process, as well as the sincerity of foreign partners in contributing strategic resources (S-ONE, 1997; THAI OVERSEAS, 1997).

Meanwhile, approximately half of the TFEs' executives revealed that their alliance timings were driven by *the scarcity of eligible foreign partners* (39.5 per cent on agree and 16.4 per cent on strongly agree) (See Table 8.7). In this respect, the TFEs must establish their alliances at that time in order to tie up with required foreign partners. TFEs decided to establish alliances at that time because they wished to ally themselves with well known multinational financial firms, which were rare in the industry (BARA, 1997; FIRST BANGKOK, 1997; PRIME; 1997). Though there were numerous foreign financial houses interested in taking part in the Thai financial industry, there were not enough recognised and strong-intentioned foreign firms to satisfy the demand from TFEs (BARA, 1997; FIRST BANGKOK, 1997). Often, it was necessary for the TFEs to approach and accelerate their alliance formation process in order to respond to their prospective foreign partners needs. In other words, given the fact that the well-known foreign firms were in great demand by TFEs, TFEs had to seize their desired foreign partners by alliances at that time. This was because the final decision for making the alliances must also depend on the foreign partners (PRIME; 1997).

However, the shortage of recognised foreign firms had not always forced TFEs to develop alliances, even though the number of TFEs had been multiplied in the last few decades. This was because many of the TFEs belonged to the same holding groups (DS, 1997; SCB, 1997; BOOK CLUB, 1997; UAF, 1997). Hence, some TFEs were able to refer some foreign firms to one another. Some TFEs must ally themselves with the foreign partners that had long established relationships with them earlier due to a mandate from their shareholders (SCB, 1997; BOOK CLUB, 1997; UAF, 1997). On the other hand, many strong TFEs were already in demand by a number of foreign partners; and therefore they did not need to be concerned with the scarcity of prestigious foreign firms (FIN-ONE, 1997; S-ONE, 1997; TISCO, 1997; NAVA, 1997).

On the other hand, fewer than half of TFEs' executives decided to choose their time of alliance in order to *alleviate the impact from external threats* (30.3% on agree and 8.6% on disagree) (See Table 8.7). This was because the overall situation in the Thai financial

See the full names of the companies referred in this chapter in table 4.5

industry had been prosperous for more than a decade before they decided to establish the alliances. Though many business uncertainties happened during operational periods, they did not significantly deteriorate their overall financial performance (TFS, 1997; PRIME, 1997; EKA, 1997). Therefore, most of the TFEs paid more attention to alliance timing for the benefits to be gained.

However, there were some TFEs starting to be aware of alleviating threats in choosing alliance timing. These TFEs established their cross-border collaboration rather late, when the Thai financial industry was declining and in the period of slow growth (NITHIPAT, 1997; BARA, 1997; KRUNG THAI, 1997; WALL, 1997). Thus, they endeavoured to become more stable via the foreign partner's market base, reputation, as well as the advanced expertise.

In general, the majority of TFEs executives decided to make alliances when their firms were ***in a favourable situation, in terms of industry attractiveness and competitive position***. This was because they could negotiate for expected benefits and better terms in co-operative contracts (ASIA, 1997; AITCO, 1997; DS, 1997; UAF, 1997; THANA-ONE, 1997). If they were considered attractive and sounded favourable, it meant they were ready for intensive alliance negotiation (AITCO, 1997; DS, 1997; UAF, 1997). Also, during the growth period, TFEs did not need to hurriedly develop alliances because they were already satisfied with their own performance (ACL, 1997; THAI OVERSEAS, 1997; TFS, 1997). Therefore, the TFEs had time to elaborately consider and negotiate with the foreign partners in order to obtain the most advantageous benefits from alliances. Besides, the TFEs' favorable situation must be of more concern if the TFEs intended to arrange equity-link alliances (AITCO, 1997; SCB, 1997; UAF, 1997; TISCO, 1997). This was because TFEs and their partners discussed not only the various conditions in alliance contracts, but also for TFEs' share prices to be paid by the foreign partners. However, some of them were not significantly concerned with their relative favourable positions when they established alliances. They further insisted that when TFEs remained competitively strong, they did not need to seek foreign partners to share their benefits and wealth (CITI, 1997; EKA, 1997; POON, 1997).

In conclusion, the strategic situations of TFEs at the time of the alliance were considered to be favourable. At the time of alliance, TFEs were in the better position, in terms of

See the full names of the companies referred in this chapter in table 4.5

competitiveness, than their rivals. Most of the TFEs' executives insisted that they chose the alliance timing because they wished to achieve considerable and immediate benefits in terms of *strategic resources and potential markets from their cross-border alliances.* In other words, the other TFEs indicated that they had to select their time of alliance to *avoid losing their opportunity to engage in an international alliance.* Moreover, less than half of TFEs insisted that at the time of alliance *they were encountering serious external threats.*

According to the opinions of TFEs' executives shown in table 8.8, most of them (94.1 per cent) believed that their alliances were established at the right time. Only a few of them (5.9 per cent) were not satisfied with their alliance timing.

Table 8.8 TFEs Executives' Opinions towards the Alliance Timing

Right Timing	Valid Frequency	Cumulative Frequency
Yes	**143** (94.1%)	**143** (94.1%)
No	**9** (5.9 %)	**152** (100%)

Note: n = 152

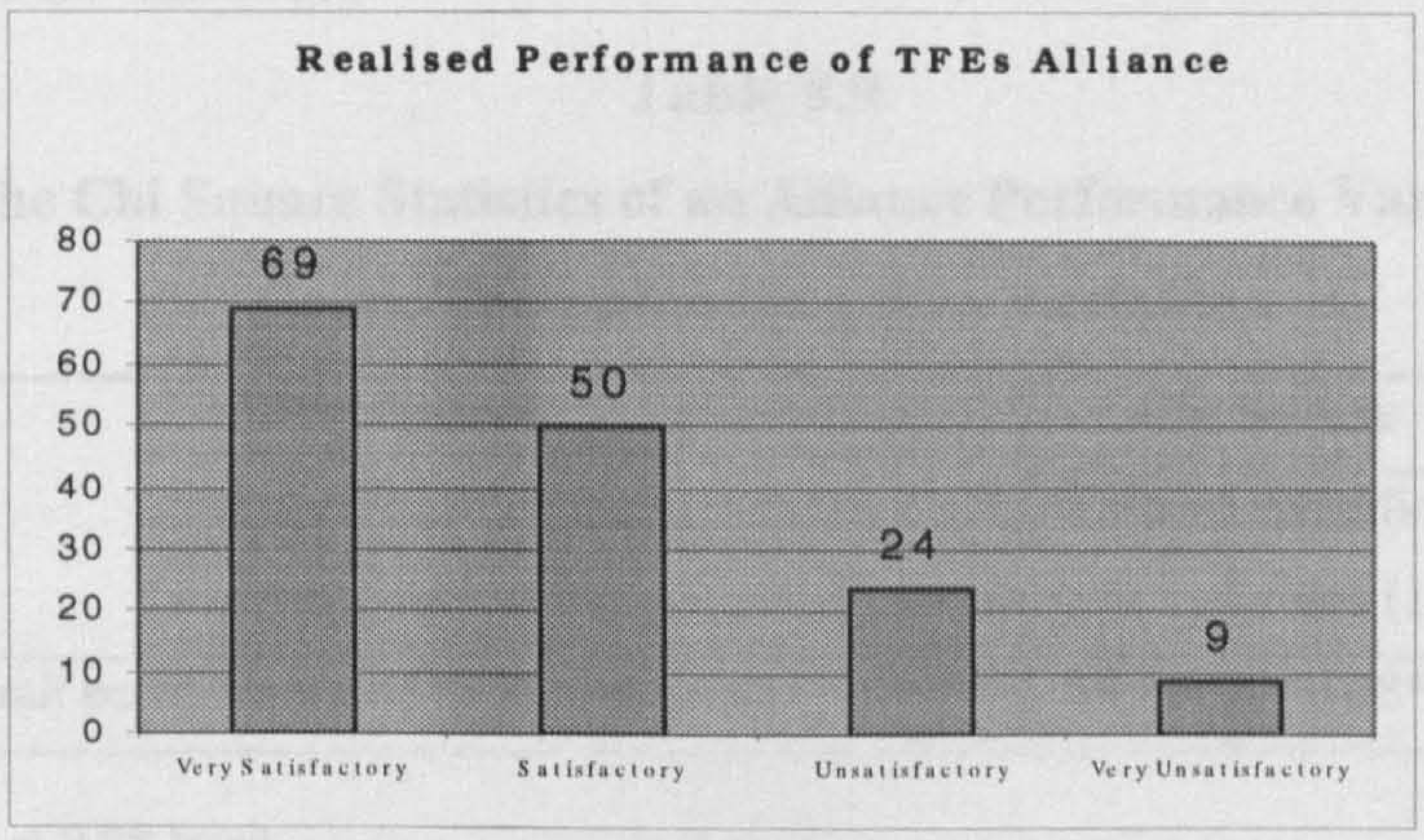
According to the interviews, most of them believed that they established alliances at the right and appropriate time. As the overall conditions in the Thai financial industry had been growing, it was not necessary for TFEs to be forced into developing alliances with inferior timing (ASIA, 1997; BANGKOK FIN, 1997; PAT, 1997; CMIC, 1997; EASTERN, 1997; EKA, 1997; PRIME, 1997; SRI DHANA, 1997). TFEs often postponed their alliance formation process in an attempt to capture better opportunities (SRI DHANA, 1997; BANGKOK FIN, 1997). However, some of them did not totally agree that their timing was most appropriate. Sometimes, they realised that they were not in a strong position to choose the timing by themselves, due to external forces and their competitive status (TFT, 1997; THAI FUJI, 1997; EASTERN, 1997; SICCO, 1997).

8.5 Performances of TFEs' International Alliances

In order to assess the performance of TFEs' alliances, the attitudes of TFEs executives were employed as indicators. The alliance performance ranged from very unsatisfactory (=1) to very satisfactory (=4). From figure 8.4, most of the TFEs' executives (78.3%) believed that

See the full names of the companies referred in this chapter in table 4.5

their alliance performance was considered satisfactory. Furthermore, 45.4 per cent of all respondents insisted that their alliances' performance were highly satisfactory. Only very few responses showed failures of the alliances (15.8% on unsatisfactory and 5.9% on very unsatisfactory).



n = 152

Figure 8.4 Performance of TFEs' Cross-Border Alliances

Most of them believed that one of the most important reasons for their alliance success was their foreign partners. In this respect, they focused on the foreign partner's attributes in terms of intention, sincerity, trust, and mutual goals (DS, 1997; S-ONE, 1997; EASTERN, 1997; ACL, 1997; PAT, 1997; NAVA, 1997; TISCO, 1997; SRI DHANA, 1997). These characteristics resulted in sustainability and a long-term commitment to their alliances, which provided mutual benefits to both partners. Even though various competencies of the foreign partners were of vital importance, TFEs realised that these competencies did not enormously effect alliance performances. This was because, in reality, most foreign financial firms were superior to TFEs in terms of technology, skills, resources, and information networks. Therefore, any foreign firms could offer complementary contributions to TFEs as long as the TFEs and their partners mutually understood each other (THAI OVERSEAS, 1997; THAI RUNG RUANG, 1997; SEAMICO, 1997; POON, 1997; THANA-ONE, 1997).

The empirical results also suggested that the *TFEs' overall alliance performance* was dependent on their size (See Table 8.9). In this case, the first two categories, *very unsatisfactory* and *unsatisfactory*, of a performance variable were combined in order to satisfy the limitation of the Chi-square test. As a consequence, the larger TFEs were more

See the full names of the companies referred in this chapter in table 4.5

likely to receive satisfactory performance from their cross-border alliances. This resulted from more international experience, more negotiating power, and greater competencies of the large TFEs. In addition, the large TFEs could be more selective in order to seek right foreign partners. This helped strengthen the co-operation and heighten the overall performance of TFEs' alliances.

Table 8.9

The Chi Square Statistics of an Alliance Performance Variable Cross-Tabulated by a Size Variable.

Variable	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
PER	The Overall performance of TFEs' Alliances	14.13	.028*	0.27	0.00*

Notes : n = 152
* significant at 0.05 level
(1) one-tailed test; (2) two-tailed test

There was also a significant relationship between *TFEs' overall alliance performance and TFEs' foreign partner selection process effectiveness* (See table 8.10). The partner selection process effectiveness variable was defined as effective and ineffective (See further details in chapter 7, section 7.5). The Chi Square statistic and correlation coefficient fell into the critical region at the 0.05 level of significance (χ^2=46.72, ρ=-0.54). It could be concluded that the effectiveness of foreign partner selection process substantially affected their alliance performance. Therefore, TFEs were suggested to emphasise the process of partner selection.

Table 8.10

The Chi Square Statistics of a Foreign Partner Selection Process Effectiveness Variable Cross-Tabulated by a Performance Variable.

Variable	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
EFF	Effectiveness of Foreign Partner Selection Process	46.72	.000*	-0.54	0.00*

Notes : n = 152
* significant at 0.05 level
(1) one-tailed test; (2) two-tailed test

In the process of managing and controlling alliances, sufficient effort and attention from top executives were required in order to handle and strengthen their alliances (ACL, 1997; PAT,

**See the full names of the companies referred in this chapter in table 4.5*

1997; NAVA, 1997; SEAMICO, 1997; POON, 1997). Specifically, TFEs' alliances that were not fully supported by top executives were likely to fail. Knowledge and research skill transfer significantly influenced the effectiveness of TFEs' alliances as competence improvement was one of the most desired goals of TFEs' alliance (ACL, 1997; PAT, 1997; NAVA, 1997; SEAMICO, 1997; POON, 1997). The strategic intentions of TFEs partners also played significant roles in developing robust and satisfactory co-operation. Some foreign partners aimed only for dividends and capital gains on financial investment (CL, 1997; PRIME, 1997; EKA, 1997). At the same time, TFEs' obviously intended to gain information, networks and technology transfer, so as to go international by themselves thereafter (CL, 1997; TFT, 1997; CATHAY, 1997; BARA, 1997; ACL, 1997). This led to a conflict of interest between partners and a deterioration in co-operation. Also, the foreign partners' attitudes towards the Thai financial markets were substantial. The partners' long-term commitment to the Thai market positively affected cohesion of alliances (SRI DHANA, 1997; ACL, 1997; PAT, 1997; NAVA, 1997; SEAMICO, 1997; POON, 1997).

Other major factors jeopardizing TFEs' alliance performance involved various situations in the emerging economies, including the Thai financial markets. Even though relevant government organisations seemed to be supportive, their roles and activities remained unclear (SCB, 1997; EKA, 1997; FIN-ONE, 1997; DS, 1997). The rules and policies governing international co-operation of TFEs were not solid and well developed (DS, 1997; EASTERN, 1997; ACL, 1997). Moreover, there were no definite guidelines for TFEs to follow in cross-border alliance development (DS, 1997; EASTERN, 1997; ACL, 1997). Therefore, this appeared to be problematic as TFEs must report their collaboration regularly and they had to comply with unclear regulations. Constructing an alliance contract under uncertain guidelines also resulted in a controversy between TFEs, foreign partners, and regulators (PRIME, 1997; EKA, 1997; SCB, 1997). Besides, the economic conditions in the Thai financial industry were changing constantly and were unstable. Many foreign partners that emphasised immediate returns were not satisfied with their alliance performance (S-ONE, 1997; BARA, 1997; DS, 1997; EASTERN, 1997; ACL, 1997).

See the full names of the companies referred in this chapter in table 4.5

8.6 Termination of TFEs' International Alliances

From figure 8.5, some of TFEs' alliances (24.3%) had been already terminated. The major reasons for termination involved unsatisfactory performance (61%), expiry of contract (23.1%), and conflict between partners (5.9%) (See Table 8.11).

Figure 8.5 Termination of TFEs' Alliances

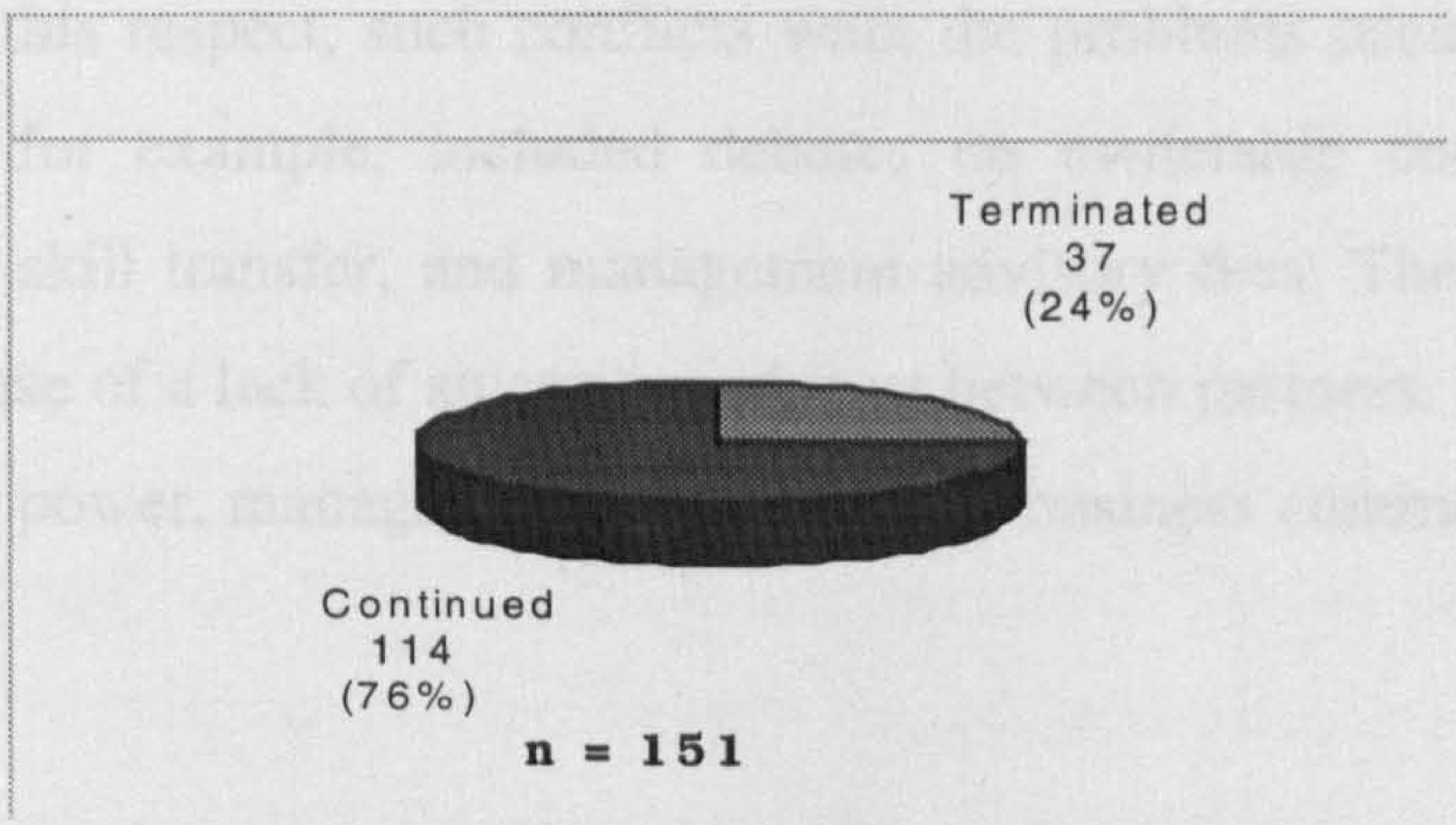


Table 8.11 Reasons for TFEs' Alliance Termination

Reasons for termination	Valid Frequency	Cumulative Frequency
Unsatisfactory Performance	**18** (61.0%)	**18** (61.0%)
Expiry of Contract	**8** (23.1%)	**26** (84.1%)
Conflict between Partners	**2** (5.9%)	**28** (90.0%))
Others	**3** (10.0%)	**31** (100.0%)

Note: n = 31

As previously shown, *the unsatisfactory performance of alliances* was the most important reason for alliance termination. In this respect, TFEs' executives considered that there was no *synergy* and *incremental benefits* as expected from the alliances. In general, the desired performance included increased brokerage volumes, expanded foreign client markets, stronger credibility, better image and reputation, and more skilled personnel. If the collaboration could not achieve such expected goals, TFEs would decide to either manage business on their own or partner new foreign firms.

The data informed us that *the expiry of contract* was another major issue for TFEs' alliance termination. However, in general, when the duration of an alliance contract expired, most of

See the full names of the companies referred in this chapter in table 4.5

the contract could be renewed with similar content. However, there were many alliances that did not continue. In reality, the implicit reason mainly involved unsatisfactory performance. In such cases, both partners would switch to new partners for more favourable conditions in alliance contracts.

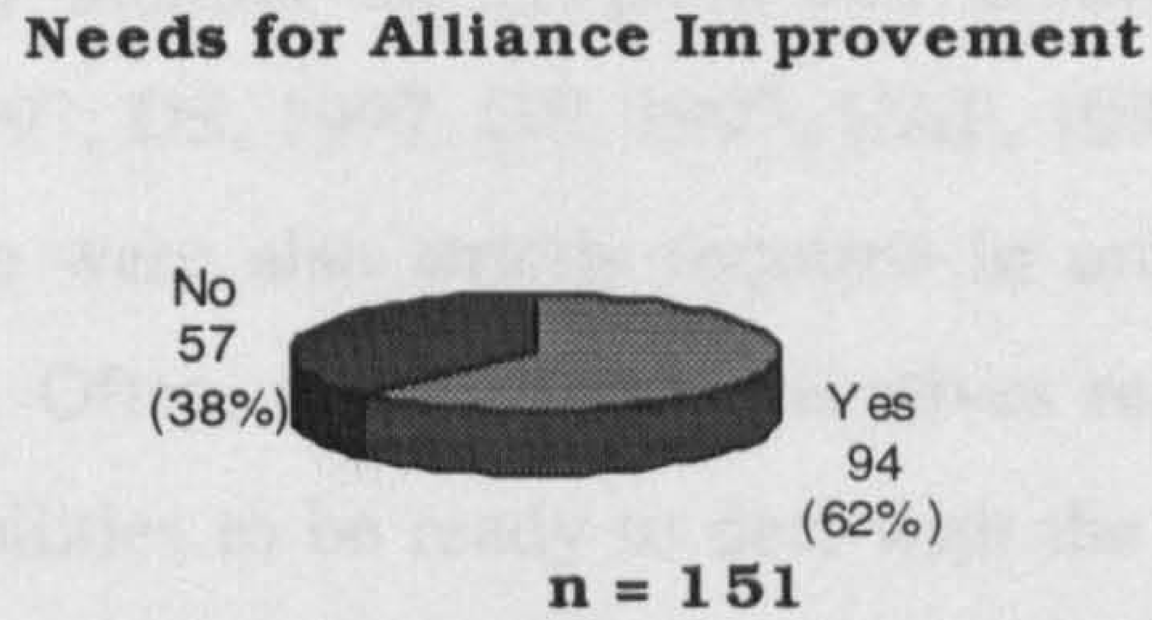
On the other hand, *conflicts between the partners* were also the reasons for TFEs' alliance termination. In this respect, such conflicts were the problems occuring during cooperation. The problems, for example, included debates on ownership control, benefit allotment, technology and skill transfer, and management advisory fees. The conflicts were prone to happen in the case of a lack of sincerity and trust between partners. Moreover, differences in size, bargaining power, managerial philosophy, and business commitment caused significant conflicts.

According to the interviews, there were many different reasons for TFEs' alliance termination. For example, some TFEs clearly indicated that their alliance contracts were expired (ACL, 1997; GF 1997; CATHAY, 1997). Further, some of them reported that there were other TFEs offering their foreign partners more interesting and favourable alliance contacts (BARA, 1997; PRIME, 1997). In reality, it was evident that *the various problems were derived from the unsatisfactory performance of the alliances.* Mostly, the performance of these TFEs' alliances did not achieve their goals in terms of profits, contributions, and mutual development (CATHAY, 1997). There were conflicts of interest between the TFEs and their partners in terms of their partners' sincerity, commitment and intentions, which jeopardised their alliance performance (PRIME, 1997). In such cases, the foreign partners aimed only to benefit from capital gains from their investment and did not intend to contribute any competence to TFEs in the long term (PRIME, 1997). In addition, the foreign partners' intention to acquire TFEs' local market networks, and not to provide TFEs with foreign client bases, also appeared to be a major cause for alliance termination (TFT, 1997).

Even though most of the alliances were considered satisfactory, there were great demands for TFEs' alliance improvement. Figure 8.6 illustrates that 61.8 per cent of respondents needed further improvement on TFEs' international alliance performances.

See the full names of the companies referred in this chapter in table 4.5

Figure 8.6 Needs for Alliance Improvement



The TFEs' important issue of alliance improvement pertained to expanding the scope of co-operation into new areas such as asset management and foreign exchange operations. Further, communication efficiency must be improved in order to strengthen mutual understanding between partners. In addition, skill and knowledge transfer was regarded as the important issue for TFEs' alliance improvement. Global and regional information exchange was also included in this category. As the trend in global financial houses must be developed towards the research-oriented edge, TFEs aspired to acquire more skills and competence associated with research techniques as well as obtaining the accurate and timely databases. Further, the longer duration of an alliance contract was also in demand. Durability of co-operation enhanced efficient knowledge transfer and long-term benefits. Alliance contracts must be clear as well as being verified and adjusted regularly. Moreover, TFEs' executives wished to gradually improve various conditions inside their organizations in order to better cope with their alliances. In particular, they were likely to focus on adjusting their staff attitudes towards co-operation with foreign firms.

TFEs believed that the process of knowledge and technology transferred from their foreign partners required significant improvement. The process needed improvement from the beginning of co-operation (KTT, 1997; S-ONE, 1997; THAI OVERSEAS, 1997). The duration of co-operation determined in the alliance contracts should be prolonged to ensure stability of alliances (CMIC, 1997; DS, 1997; GF, 1997). Besides, the alliance contacts ought to be mutually exclusive so as to avoid the competition between partners (EASTERN, 1997; ACL, 1997; CATHAY, 1997). However, some TFEs expected to simultaneously establish several international alliances due to increasing business opportunities and increasing exposure to foreign business environment (UAF, 1997).

**See the full names of the companies referred in this chapter in table 4.5*

Significant attention of TFEs' executives must be paid not only to create sensible terms of contracts but also to closely monitor the progress and results of alliance (ASIA, 1997; EASTERN, 1997; CMIC, 1997; DS, 1997; GF, 1997; UAF, 1997). Continuous negotiations during the period of alliance were also strictly required in order to gain contributions as determined by the contracts. Often, many TFEs' executives realised that the TFEs had to enhance their learning capabilities to be ready to deal with the knowledge transfer process (ASIA, 1997; EASTERN, 1997; SRI DHANA, 1997; EKA, 1997). In addition, there was a strong demand for improving operational systems with respect to front and back office procedures in order to utilise foreign networks more efficiently (PAT, 1997). Indeed, TFEs must develop themselves to be capable of contributing to each other as they were not supposed to be a burden on their foreign partners (JF, 1997).

Also, there was a strong need for improving the foreign partner selection process. They suggested that TFEs had to emphasise more strategic intentions and the long-term goals of their prospective partners prior to engaging in alliances (CL, 1997). TFEs also wished to develop and advance their alliance co-operation in terms of a wider scope of alliance co-operation and more complex collaboration (KTT, 1997). Often, many TFEs were aimed at developing their alliances to be more sophisticated forms such as joint ventures as well as diversifying business lines of joint investment (KTT, 1997; S-ONE, 1997; THANA-ONE, 1997).

Table 8.12

the Chi Square Statistic of a termination and Improvement Variable Cross-Tabulated by Alliance Performance Variable.

Variable	Descriptions	Chi Square		Correlation	
		Value	Significance (1)	Coefficient	Significance (2)
TER	Termination of TFEs' alliances	48.97	.000*	.53	.000*
IMP	Needs for alliance improvement	6.62	.084**	.18	.022*

Notes : n = 152
* significant at 0.05 level
** significant at 0.10 level
(1) one-tailed test; (2) two-tailed test

**See the full names of the companies referred in this chapter in table 4.5*

Table 8.12 presents the statistical significance between *TFEs' termination of alliances* and *alliance performance* (χ^2=48.97, ρ=0.53). Obviously, TFEs' alliance termination had a strong relationship of dependence on alliance performance. To summarise, TFEs' alliances demonstrating satisfactory performance were less likely to be terminated.

Another interesting variable cross-tabulated by *the performance variable was* the *needs for improvement variable*. Table 8.12 also shows a significant relationship between the two variables (χ^2=6.63, ρ=0.18) at the 0.1 level of significance. Thus, the TFEs' need for alliance improvement was statistically dependent on the level of satisfaction with their alliance performances. If the TFEs' alliance performance was considered satisfactory, TFEs' executives were less likely to realise their need for alliance improvement.

8.7 Conclusion

Regarding the timing of TFEs' international alliance establishment, the majority of TFEs endeavoured to choose their alliance timing when *the Thai financial industry was attractive to foreign financial firms* as well as when *their overall relative competitive position was relatively stronger than the average of the industry.* These two conditions made TFEs themselves more attractive to their prospective foreign partners at the time of their alliance establishment.

Mostly, TFEs preferred to establish their alliances when the windows of *strategic resources and market opportunities from alliances were wide open* in order to gain immediate benefits. In this respect, they chose to develop their alliances when they were in situations that offered them immediate and considerable benefits from the collaboration in terms of marketing activities and resource utilisation. Nevertheless, sometimes TFEs were forced to be in a rush for alliance establishment when it appeared there was a shortage of foreign partners in the industry at the time. In brief, all the strategic reasons helped TFEs to achieve their alliances' offensive and opportunistic goals which were normally determined at the outset of TFEs' alliance development.

See the full names of the companies referred in this chapter in table 4.5

Mostly, TFEs' international alliance performance was satisfactory due to eligible foreign partners and prosperous business environmental conditions that had surrounded TFEs for several decades. Nonetheless, TFEs' cross-border alliances were still at the beginning stage and required major improvement in terms of expertise transfer, communication efficiency, mutual understanding development, and conflict resolutions and corrections.

The following, fourth, section is concerned with the case study research. The next chapter is the case study of international strategic alliances of Phatra Thanakit Public Company Limited. All relevant information of the cross-border co-operation will be discussed in detail in the chapter.

See the full names of the companies referred in this chapter in table 4.5

PART V: CASE STUDIES OF INTERNATIONAL STRATEGIC ALLIANCES OF THAI FINANCIAL ENTERPRISES

Chapter 9

Case Study I: International Strategic Alliance Formation of *Phatra Thanakit Public Company Limited*

9.1 Introduction

This chapter involves the intensive case study of international strategic alliance by Phatra Thanakit Public Company Limited. The first section sheds light on the background of cross-border co-operation of the company. The overall picture of the company's alliance establishment, including a brief overview of its previous relationship with *S.G. Warburg*, is explained. Next, the strategic issues surrounding the company's alliance formation with its current foreign partner, *Goldman Sachs*, are critically discussed, in terms of motives, criteria, and timing. Also, the performance of the alliance is considered. In the subsequent section, the strategic viewpoints of Goldman Sachs are shown in order to enrich the case

The interviews which were conducted with executives significantly involved in the formation process of the alliance are shown in table 9.1. Furthermore, Mr. Pitinand Maiglad, analyst, who was assigned to contact and provide the researcher with information with respect to the topic.

Table 9.1 Names of Informants of Phatra Thanakit Public Company Limited

No.	Names	Positions	Date of Interview
1	Mr. Banyong Pongpanich	Executive Director	March 18, 1997
2	Dr. Asoke Wongcha-Um	Senior Executive Vice President	March 25, 1997
3	Mr. Varut Kajonvakin	Vice President of Phatra Research Institute	April 3, 1997.
4	Mr. Kanchit Bunajinda	Vice-President of corporate finance department	April 16, 1997
5	Mr. Picharn Kulavanit	Managing Director of Goldman Sachs Thailand	May 16, 1997

9.2 Background to International Strategic Co-operation of Phatra Thanakit

First of all, the origin of Phatra Thanakit's international strategic alliances can be traced to the long-term visions of Phatra Thanakit's top executives. Initially, the executives considered thoroughly the background of the Thai financial industry and believed in the importance of foreign participation in nurturing the development of the industry. According to Mr. Pongpanich, Phatra divided the development stages of the Thai financial industry as follows.

The first stage of development had started from 1980 to 1985. At this stage, the Thai financial market was considered relatively closed. There was no significant foreign participation in the industry due to restrictive government policies and underdeveloped systems. The size of the financial markets remained relatively small. Also, most of the Thai financial institutions played roles as "indirect intermediaries". The financial markets were inefficient. Besides, the foreign direct investment (FDI) in such a period was insignificant due to limited investment opportunities for foreign investors.

The second stage of Thai financial development ranged from 1986 to 1996. In early 1985, the overall situation of Thai economy began to improve. There were positive signs of better prospects for the Thai economy, particularly in the financial industry due to a more stable government status, disciplined financial policies, effective public finance measures and valuable natural resource discovery. Apparently, the effects of internationalisation and globalisation processes had multiplied in their importance to the Thai financial industry from the beginning of this stage.

Meanwhile, the overall prospects of the Thai financial industry in the period were very impressive and the time seemed to be the starting point of the new era of the Thai financial economy. It was also considered the recovery point of Thai economy from the recession period. At the same time, the average dividend yield of blue chip stocks in the securities market of Thailand (SET) went up to above 10 per cent. This resulted in dramatic investment in the SET and the emergence of an enormous amount of foreign capital inflow in the forms of FDI, direct borrowings, portfolio investment. Thus, the turning point in

Phatra's long history was in 1991 when foreign participation in the Thai financial markets was growing more than ever. The proportion of foreign securities trading was lifted from 10 % to 50 % of the total volume of trades. The establishment of strategic linkages between Phatra and a foreign broker began to be taken into consideration by the company's executive committee in this period (Mr. Pongpanich, 1997; Dr. Wong Cha-Um, 1997).

The last phase of the Thai financial development started around the latter half of year 1996 up to present. The Thai industry began to slow down its growth and also showed some signs of decline. Therefore, this could be called the correction and decline period of the industry.

In reality, Phatra preferred a strategic alliance to **mergers and acquisitions** mainly due to the strict policies of the company. Major shareholders were conservative and did not wish to jointly hold stakes with foreign investors. Besides, Phatra intended to make itself more stable, in terms of capital and capability, prior to taking over other foreign firms. In addition, the government policies at that time were very restrictive. Capital investment outside the kingdom was almost prohibited. On the other hand, at the time Phatra simultaneously deployed an **internal growth strategy** and an alliance strategy. However, the internal growth strategy by itself was considered to be too time- and resource-consuming. Thus, Phatra was not capable of adequately developing its own abilities and competencies, especially international and foreign networks (Mr. Pongpanich, 1997; Dr. Wong Cha-Um, 1997).

Initially, there were three options for Phatra's international relationships, consisting of a non-equity agreement, a non-equity agreement with an exercise option for a subsequent holding stake in the company, and an equity agreement. Finally, Phatra decided to develop a non-equity agreement with its prospective foreign partner. This was because the company realised that the last two options were rather restrictive. Additionally, the shareholders of the company preferred not to allow foreign brokers to take equity control and own voting rights (Mr. Pongpanich, 1997; Dr. Wong Cha-Um, 1997; Mr. V. Kajornvakin, 1997; and Mr. Bunchinda, 1997). An alliance agreement seemed to be the most appropriate form of international relationship for Phatra. Therefore, the first international alliance of Phatra was arranged with S.G. Warburg in June 1991.

The relationship with S.G. Warburg had been satisfactory and there had been no serious problems during the period of co-operation. However, the alliance was terminated because S.G. Warburg was taken over by Swiss Bank Corperation (SBC) in 1995. This was an important turning point of the strategic relationship between Warburg and Phatra as Swiss Bank had formerly arranged an equity alliance with Premier Finance and Securities Company Limited. Therefore, there were two solutions for Phatra and Warburg as stated by Mr. Pongpanich (1997).

"As we had been very good friends, Phatra recommended two solutions to SBC Warburg. The first one was continuing the relationship with Phatra as well as terminating and selling its stake in Premier Finance and Securities Company. Alternatively, the termination of alliance between Phatra and Warburg could be brought about and SBC Warburg turned to concentrate more on the collaboration with Premier. Though Phatra needed Warburg to continue the relationship, we did not want to force Warburg to do so. On the contrary, we were pleased to respect his decision without any argument" ***(Interview with Mr. Pongpanich, 1997)***

Initially, SBC Warburg wished to strengthen the strategic relationship with Phatra through taking an equity position in the company. Unfortunately, Phatra had not had a policy to have a foreign equity participation in the company. Phatra then turned down the offer from SBC Warburg. Finally, Phatra and Warburg discontinued the relationship in January 1996. However, the termination was based upon good mutual understandings and the two firms still kept informal commercial contact with each other.

After discontinuing its alliance with S.G. Warburg, Phatra started a strategic co-operation with Goldman Sachs, a world-famous American financial firm, which agreed to jointly operate its securities and research businesses with Phatra in April 1996.

9.3 Background of International Alliance Development between Phatra and Goldman

9.3.1 The Areas of Co-operation

There were four major areas categorised as follows:

1. **Brokerage and Secondary Market Co-operation**: This area emphasised transferring trading transactions in the secondary markets, particularly stock and debt instrument

markets. In this case, Goldman committed itself to transfer to Phatra most of its securities trading as well as providing advice and information about the directions of major foreign securities markets. Besides, Goldman's research papers covering Thai and neighbouring stock markets would be distributed to Phatra regularly so as to be an additional guideline for domestic and foreign investors.

2. **Primary Market Co-operation:** Major activities in primary market services comprised investment banking, corporate finance, initial public offering, and privatisation. Phatra helped Goldman to achieve tremendous benefits by its extensive local clientele. The co-operation with Goldman was more flexible and less exclusive. In this respect, Phatra could arrange investment banking deals with any foreign firms, depending upon foreign houses' suitability which was considered on a case-by-case basis. However, Phatra usually favoured and referred Goldman to its clients. In this case, Goldman was expected to show strong commitment and readiness to work jointly on the deals.
3. **Research Technique Co-operation:** The co-operation in this area was heavily emphasised by Phatra. Research co-operation between Goldman and Phatra was intensive and solid. However, as Phatra had dramatically developed its competencies, skills, and techniques when it tied up with Warburg, the focus of this research co-ordination with Goldman was switched from learning techniques to acquiring a global outlook and international databases. Goldman granted Phatra full authority to access all of its database and research information. This authority was extremely valuable because Phatra could not have otherwise acquired world-wide trends and directions. In this respect, Phatra provided local information and Goldman offered global and foreign trends. In addition, Goldman sent its professional staff on a regular basis to visit Phatra in Bangkok in order to exchange viewpoints and discuss problems and various issues with respect to research tasks.
4. **Human resource development:** A training and development of human resources agreement also existed. There were plenty of opportunities for Phatra's staff to enhance their expertise in a complete range of financial services. For example, training in research expertise, corporate finance skills, and other sophisticated and modern financial service techniques were at the heart of such collaboration.

9.4 Strategic Motives and underlying needs of Phatra

The first aspect of alliance motive is related to the market-defensive approach. Initially, the ***market-defensive motives in respect of dealing with competitive uncertainties*** (H_1o as stated earlier in chapter 4) is examined.

According to Mr. Kajornvakin (1997), Phatra did not need to ask for some help from its foreign partner to cope with the fierce competition in the industry. This was because the company itself was highly competitive and stable in terms of finance, marketing, and its various operational aspects. In addition, Phatra was in an excellent situation and could already compete effectively with rivals in the industry. Thus, it was not necessary to establish its alliance for the purpose of easing its struggle with competition (Mr. Bunchinda, 1997).

In brief, the company's alliance was aimed at consolidating its strong competitive position and at expanding its scope of operations, rather than defending itself. The opinion of the company in alliance establishment was very opportunistic and focused on market and competence development more than stabilising its competitive status due to the long-term positive prospects of the company and the industry (Dr. Wongcha-Um, 1997).

More importantly, Mr Pongpaiboon (1997) insisted that

"Although the competition in the Thai financial industry was high, Phatra was not really concerned with it. I figured that the event was considered normal for the newly emerging economy and industry. In particular, though the trend of the industry in the future seemed to be increasingly competitive due to greater foreign participation, the company remained healthy. This was because Phatra was regarded as one of the strongest financial companies in Thailand and had a solid business base in Thailand. If multinational or regional finance houses participated in the Thai financial industry, it was not very difficult for Phatra to deal with them in its familiar territories. Moreover, the competitive situation in the industry would not be too bad as there still were some government measures supporting TFEs. Anyway, if the market entered a period of adversity, Phatra would be the last person in the industry. So, the company did need to use the alliance as a tool for avoiding the threats" ***(Interview with Mr. Pongpanich, 1997)***

Although there were some uncertainties in the Thai financial market and Phatra wished to have the benefits from its alliance to offset the potential losses of its existing clients from fierce competition in the market (Dr. Wongcha-um, 1997), the company still regarded this reason as a minor point, compared to the opportunistic motive in establishing the alliance to exploit its strong competitive position. Therefore, the null hypothesis seems to be supported. That is, *the market-defensive motives in respect of dealing with competitive uncertainties do not stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

The second hypothesis involves ***market-defensive motives in respect of dealing with demand uncertainties*** (H_2o as stated earlier in chapter 4).

Phatra was not significantly concerned about defending itself from demand uncertainties in the alliance establishment. According to Mr. Pongpanich (1997), the Thai financial market sounded promising in the long term and seemed to be growing in the future. Therefore, the market demand conditions, which were variable, did not significantly worry Phatra. On the other hand, the patterns and methods of market trading, which were supposed to be more advanced in the future, sounded difficult to deal with (Mr. Bunchinda, 1997 and Mr. Pongpanich, 1997). However, when the company arranged the alliance with Goldman, the issue was not perceived as an important motive as when establishing the collaboration with Warburg in the last decade. This was because the company was stronger and more skilful (Mr. Pongpanich, 1997).

Dr. Wongcha-um revealed that

"As stated earlier because Phatra had dealt with the complicated demands of foreign and local institutional clients during the alliance with S.G. Warburg, the company had already learnt how to respond to and serve the clients. Indeed, Phatra had also directly contacted its own foreign client base without any help from its foreign partner. Thus, even though the market structure would change to focus more on institutional and foreign customers, Phatra did not regard the phenomenon as a serious threat. ***(Interview with Dr. Wongcha-um, 1997)***

Moreover, the proportion of institutional to retail clients was around 55% to 45%, which was better than the industry average (Mr. Kajornvakin, 1997). This meant that the company foresaw the market trend and was ready to cope with the changing demand conditions. Therefore, the null hypothesis in this respect is accepted. That is, *the market-defensive motives in respect of dealing with demand uncertainties do not stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

The third hypothesis is **the resource-defensive motives** (H_3o as stated earlier in chapter 4). The motives focus on TFEs' resource dependence on their foreign partner in developing an alliance. This is aimed at acquiring resources that TFEs lack in order to stabilise their strategic situations, continue their operations, and survive in the industry.

With respect to this issue, it was evident that the situation of Phatra's alliance with Goldman was different from that with Warburg. In 1991, when Phatra started to establish the alliance with Warburg, Phatra was a very local company and had never experienced international financial transactions. International-level know-how and ability were completely lacking. At the same time, the Thai financial industry was reckoned to be an early stage of internationalisation. Warburg provided Phatra with a complete package of knowledge, skills, and marketing networks. In contrast, at the time of the alliance with Goldman, Phatra was highly internationalised and capable of handling foreign transactions by itself. Also, Phatra served its own foreign clients in the Asian region without any help from Goldman and had a sufficient range of resources to continue its operations at a satisfactory level. The company did not rely much on its foreign partner in supplying the necessary resources, skills, or information for its survival (Mr. Pongpanich, 1997; Dr. Wongcha-um, 1997)

In addition, the company was in a strong competitive position in securities. Phatra occupied large market shares in both primary and secondary markets of the securities business. The company was also considered a wealthy and well-prepared firm in the Thai financial industry. Its continuous and long-term development process provided the company with abundant resources, in terms of finance, skills, and infrastructure to stabilise its operations by itself. Thus, the company had less necessity to depend on a foreign partner's resources in order to survive (Mr. K. Bunchinda, 1997).

However, the company accepted that there remained some needs with respect to various resources and services necessary for continuing work on its research tasks, such as information, advice, and research staff. These resources and contributions were also expected from its foreign partner via the cross-border alliance. They were important for the world of financial globalisation. Yet, this purpose did not seem to be significant as the company itself could already respond adequately to its clients's needs at that moment (Mr.

Kajornvakin, 1997). The company, then, did not seriously struggle to acquire its partner's resources to survive in this respect. Therefore, the null hypothesis seems to be supported. That is, *the resource-defensive motives do not stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

The next hypothesis is ***the market-offensive motives*** (H_4o as stated earlier in chapter 4). The motives involve the development and enhancement of TFEs' capabilities from their cross-border alliance in order to further expand their market scope.

The aspiration of Phatra in alliance establishment involved expanding its **operational scope to international and regional markets** (All, 1997). As previously stated, Phatra aimed to develop itself through an alliance with Goldman both immediately and continuously in the long run. Yet, the company placed more emphasis on long-term advancement in terms of future foreign market development. Mr. Pongpanich also stated that

"This was derived from Phatra's vision that the financial institutions of the 21st century could survive and succeed through acting as global and regional players as well as covering a complete range of business. Lacking one of the attributes would lead to business failure or to being acquired by other powerful firms. Thus, Phatra wished to expand its market to foreign countries. Perhaps, the company would develop networks in the Asian region first. Of course, this mission must be accomplished by sustainable contributions from its foreign partner." ***(Interview with Mr. Pongpanich, 1997)***

Moreover, the strategic viewpoints of Phatra were also adjusted and improved due to dramatic structural adjustments in its organisation. At that time, the overall operating systems of Phatra were relatively efficient. Thus, Phatra was geared towards wholesale business rather than retail business due to lower transaction costs and greater flows of incomes. Foreign and institutional clients were more highlighted. This fostered alliance development in order to occupy more foreign and institutional market (Dr. Wongcha-um, 1997).

Mr. K. Bunchinda (1997) revealed that there was little likelihood of Phatra to promote itself to become a global or regional player within a limited time frame. Initially, the development path of Phatra started with penetrating niche markets and becoming a strong domestic and country specialist. Afterwards, the subsequent aim was to become a global financial house.

Thus, when the time came, Phatra did not hesitate to use the cross-border collaboration as a device to reach its long-term development goal.

Dr. Wongcha-um (1997) also further stated that the immediate expected benefits from the alliance, in terms of securities trading volumes and commissions, were given less attention than future foreign market expansion. Phatra had always been focusing upon sustainability rather than superficial and short-term advantages. As noted,

*"Other finance and securities companies ridiculed Phatra when we chose to make a collaborative arrangement with S.G. Warburg and, even, Goldman. This was due to the fact that the two foreign firms could provide us with a smaller securities volume than other foreign firms that approached Phatra. In reality, we paid most attention to sustainable development, instead of immediate profits. We insisted that one day the other TFEs must realise that we were right." **(Interview with Dr. Wongcha-um, 1997)***

Clearly, Phatra's alliance aimed to obtain more certain and longer term advantages from co-operation, which was likely to be activities and performances in primary market, such as corporate finance deal, rather than secondary market. The company, then, wished to expand its client base in the primary market, which badly needed advanced techniques and skills improvement. Therefore, the international alliance seemed to be a market-offensive mechanism for the company. Consequently, the null hypothesis is rejected; the alternative hypothesis is supported. That is, *the market-offensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

The fifth hypothesis is ***the resource-offensive motives*** (H_5o as stated earlier in chapter 4). In this respect, TFEs focus on the utilisation of foreign partner's resources in order to further develop their scope of operations and improve their overall performance when establishing the alliance.

With reference to the previous point, Mr. Pongpanich, executive member of the board of directors, revealed that

"The motives of establishing an alliance with Goldman remained rather similar to those of an alliance with Warburg. That is, Phatra needed to quickly expose itself to the regional and global investment community in terms of professional securities services and large-scale financial advisory projects. In this respect, Phatra's international alliance was aimed at obtaining direct contributions from its partner so as to achieve competitiveness and

continue future development towards global standards. In return, Phatra concentrated on compensating Goldman in exchange for its supplementing our resources." ***(Interview with Mr. Pongpanich, 1997)***

Dr. Wongcha-um (1997) opined that, in the case of an alliance with Goldman, Phatra tended to make the linkage more intensive than the past relationship with Warburg in terms of marketing network transference. In this instance, Phatra would not only be a passive Thai partner, but act as an active representative and a principal part of Goldman both in Thailand and in foreign markets. This was because, from the past alliance with Warburg, the company had gained much benefits from the marketing arms and channels of Warburg. Thus, the foreign marketing arms of a foreign partner were a significant motive.

Nonetheless, the international client bases and networks were focused on the alliance building process. This issue was critical as Phatra continuously confronted such a problem when allying itself with Warburg. Phatra and Goldman had to make clear that this did not mean that it wanted to occupy the foreign partner's market base. The company just needed to use the marketing channels to get exposure to foreign markets, for which all activities were based on the mutual benefits. Phatra and Goldman, then, discussed this point at the outset of co-operation in order to prevent potential conflict of interest in respect of each firm's customer bases later on. Both firms clearly identified the boundary of their target markets and attempted to avoid directly encroaching upon each other's target markets (Dr. Wongcha-um, 1997).

Regarding the extensive networks of Goldman, Phatra wished not only to **obtain Goldman's references to foreign customers but also to acquire in-depth information** with respect to business opportunities and trends in the global financial circle. As Goldman had its branches and subsidiaries situated in major cities around the world, the information was distributed to Phatra regularly. The company needed to be informed, updated, and involved more in a dynamically changing industry like the world's finance industry (Mr. Kajornvakin, 1997).

As a matter of fact, the company seemed to be motivated by the strategic resources of the foreign partner in alliance development. The resources consisted mainly of international marketing channels as well as global directions and research information. In particular, Phatra lacked the resources and remained in need of them in order to develop itself and improve its operations. Therefore, the null hypothesis is rejected; the alternative one is accepted. That is, *the resource-offensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

9.5 How to seek and collaborate with Goldman

According to Mr. Pongpanich (1997), when the alliance with S.G. Warburg was terminated, Phatra began to look for a new foreign partner. At that time, there were eight foreign houses courting Phatra. As a number of foreign firms showed their strong determination to tie up with Phatra, there were major criteria set up in order to assess the appropriateness of the foreign partners.

The sixth hypothesis involves ***criteria associated with strategic fit and compatibility*** (H_6o as stated earlier in chapter 4).

According to Mr. Pongpanich (1997) and Mr. Kajornvakin (1997), Phatra considered **managerial strategies and policies of a foreign partner, which would be consistent with those of Phatra**. In this respect, one of the most distinctive policies in common between Phatra and Goldman was their policy in managing operating financial services as stated below.

*"Both firms have been "**service-oriented houses**" in handling clients' financial cases or projects. The service-oriented firms focus only on responding to clients' needs and maximising customer satisfactions via quality financial services. Under this principle, the financial houses do not become involved with clients' companies in the form of equity participation. In contrast, there is another type of financial house acting as a **deal-oriented** firm. The deal-oriented firms always hold a stake in their client firms so as to maximise their profits through not only advisory fees but also capital gains from client firms' stocks. According to Phatra's opinion, basing its operations on deal-oriented principles was not appropriate for the financial markets in the emerging countries, including Thailand, due to inefficiency of information and various imperfect market mechanisms. This was because the deal-oriented method caused conflicts of interest between the financial advisers and client firms. This resulted in unfair underwriting prices of companies. From the track record of Goldman, it was clear that it had demonstrated its **service-oriented** character." **(Interview with Mr. Pongpanich, 1997)***

In addition, the ***consistent goals*** between the two partners were of significant concern. Goldman clearly expressed its strategic intention that it would reinforce Phatra to become its exclusive strategic partner and base in Thailand. Goldman promised not to set up a branch or subsidiary and not to be a country specialist in Thailand. This meant that the potential conflict of interest between partners was reduced due to consistent goals. Also, Phatra could ensure that a potential powerful rival would not exist in the industry (Dr. Wongcha-um, 1997).

Besides, Phatra focused on strategic intention of a foreign partner. In this case, Goldman exhibited its remarkable commitment to Phatra by a personal visit to Goldman's chairman at Phatra's headquarters in Thailand. This meant that Goldman paid vital attention to and greatly favoured Phatra. (Dr. Asoke, 1997)

All the discussions seemed to devote significant attention to the criteria associated with strategic compatibility between two partners. This was because Phatra focused more on long-term benefits and needed to establish a long-lasting alliance. The consistency between the two partners' strategic and managerial objectives was important to the effectiveness of the cohesive co-operation. Therefore, the null hypothesis is rejected; the alternative one is accepted. That is, *the fit and balance of strategic intent composed of long-term objectives, major strategies, and managerial systems are of significant concern to Thai Financial Enterprises (TFEs) in the foreign partner selection.*

The seventh hypothesis is strategic criteria associated with ***synergy and complementary competencies*** (H_7o as stated earlier in chapter 4).

Another important criterion of Phatra was ***reputation, power, and various complementary capabilities***. At that time, Phatra focused more on the ***"global-level efficiency"*** of foreign houses. In this context, the word "efficiency" meant **extensive markets networks and cutting-edge technology** of the foreign partners. By considering this criterion, competencies in various fields of financial business had to be uniquely strong, particularly in investment banking and research. This was because Phatra needed to pursue synergy via combining its strengths with its partner's complementary competencies in terms of research and investment banking services (Mr. Pongpanich, 1997).

Besides, the foreign firms on Phatra's "wish-list" had to be multinational companies which had been operating and experiencing business in many countries (Mr. Pongpanich, 1997; Dr. Wongcha-um, 1997). Their networks of business ought to be extensive and cover a complete range of financial services. The world-wide reputation was of vital importance as Phatra aimed to raise its profile to become a regional broker (Dr. Wongcha-um, 1997). Further, individual ability of human resources of foreign firms was also stressed. Highly professional skills and expertise were of great concern to Phatra (Mr. V. Kajornvakin, 1997).

In this case, Phatra was acutely concerned with high technology and sophisticated skills, including the international experiences of its prospective foreign partner. This was because the company needed to use the complementary skills to advance itself on the regional level. The company was in need of analytical methods and techniques with respect to new financial instruments as well as hoping to gain international credibility from the alliance. Therefore, the null hypothesis is rejected; the alternative one is supported. That is, *Thai Financial Enterprises (TFEs) interested in allying themselves with foreign partners regard synergy and complementary skills as the major criteria in selecting foreign partners.*

The eighth hypothesis of selection criteria of TFEs involves ***operational cultural differences*** of the foreign partner (H_80 as stated earlier in chapter 4).

The differences in patterns and styles of operation seemed insignificant to Phatra when selecting a foreign partner. This was because the company realised that the coming alliance would be only a contractual agreement first, and there would be no intensive interactions at the beginning. The differences in operational styles should be apprehended and acceptable as the co-operation ensued. In addition, Phatra was eager to develop itself to become an international firm and ready for any alterations suggested by its partner. Thus, there would be no problems about resistance or operational glitches in this case (Mr. Pongpanich, 1997; Mr. Kajornvakin, 1997).

Dr. Wongcha-um (1997) also stated that " *The operational patterns and cultures of Phatra had been considerably changed and improved prior to allying itself with Goldman. This was because the company had learnt from the interactions with S.G. Warburg during the period of their co-operation. Thus, it should not engender any serious problems related to different* *operational styles with Goldman or even with other foreign firms."* ***(Interview with Dr. Wongcha-um, 1997)***

However, Mr. Pongpanich (1997) revealed that there was one point of Goldman's operational cultures that impressed Phatra. This was a team work ethos, which was absolutely consistent with that of Phatra as the company had never imbued a "one-man-show" or "prima donna" corporate culture. This distinguished Goldman from other American firms that normally emphasised an individualist instead of a group profile. All these points greatly impressed Phatra but it still could not be regarded as the major criterion for foreign partner consideration.

As Phatra had been modernising and internationalising itself for several years before developing the alliance with Goldman, the company had anticipated the operational differences between two partners already and did not regard the issue as being important when selecting the foreign partner. Therefore, the null hypothesis in this case is accepted. That is, *the operational cultural differences between Thai Financial Enterprises (TFEs) and their potential foreign partners are not considered a crucial factor in establishing the TFEs' international networks.*

The ninth hypothesis associated with strategic criteria is ***individual attributes and pure cultural issues*** of a foreign partner (H_9o as stated earlier in chapter 4).

In this respect, the criteria with respect to pure cultural differences or individual attributes of a foreign partner, which was not related directly to operations, did not significantly concern Phatra (All, 1997). According to Mr. Pongpanich (1997), this was due to Phatra's combination of professional and entrepreneurial styles of operation that resulted in a highly flexible organisation. It was believed that Phatra had internationalised itself to be ready for coping with the cultural dissimilarity of foreign partners.

Besides, Phatra had familiarised itself to handling a complicated international linkage with Warburg prior to the alliance with Goldman. Differences in cultural issues between partners were already anticipated and acceptable. Also, Phatra had confidence in its alliance development system which was based entirely upon mutual benefits and understandings.

Thus, the impacts from cultural differences were not seriously taken into consideration (Mr. Pongpanich, 1997; Dr. Wongcha-um, 1997; and Mr. Bunchinda, 1997).

However, Mr. Kajornvakin (1997) stated that Phatra was also concerned with criteria associated with cultural differences but only as a minor point. He furthered asserted that

"In this respect, Phatra also realised that there were significant differences in terms of culture between S.G. Warburg and Goldman. In detail, some manners, expressions, and appearances were rather different between staff and executives of the two foreign firms. Warburg's style was conservative and well-behaved which was different from the extrovert behaviour of Goldman's personnel. Phatra, then, was slightly concerned with the contrasting issues but it remained confident that its staff and executives could manage the differences." ***(Interview with Mr. Kajornvakin, 1997).***

The company seemed not to pay significant attention to the purely cultural attributes of a foreign partner. This was due to the international and open styles of the company. Therefore, the null hypothesis is likely to be supported. That is, *the individual attributes of foreign partners are not regarded as major criteria in TFEs' foreign partner selection process.*

9.6 Strategic Timing of Alliance with Goldman

9.6.1 Industry Attractiveness

The researcher assumes that there are two indicators that prompt TFEs to establish their cross-border alliance at the appropriate time. In this respect, there are two major hypotheses pertinent to the signal of TFEs' alliance timing, industry attractiveness and competitive position. The tenth hypothesis is related to "**industry attractiveness**" ($H_{10}o$ as stated earlier in chapter 4).

With regard to demand conditions, while developing the cross-border co-operation with Goldman, the Thai economy continued to grow strongly by 8.6 per cent. This economic growth was driven by strong exports and investment, including domestic spending (Bank of Thailand, 1995). On the other hand, the capital market growth itself, of both the primary and secondary markets, slightly slowed down from the preceding year. Primary market issues went down about 7.5 % from the last year. The secondary market, represented by the SET index, also fell by 5.8 %. The conditions resulted primarily from external factors, namely, the Mexican financial crisis (SEC, 1995; Bank of Thailand, 1995).

In this respect, Dr. Wongcha-Um (1997) stated that

"The Thai financial market during that time looked more or less sound. It was performing quite well, particularly primary market. However, there were some significant fluctuations in terms of capital inflow from foreign countries as the Thai market relied on the foreign capital very much. The external factors significantly influenced sentiment of the secondary market. This could result in decreased returns from investment in the market. Many investors started to reduce the exposure in the Thai market, especially foreign and institutional investors." ***(Interviw with Dr. Wongcha-um, 1997)***

The situation of the Thai financial market at that time remained satisfactory although there were some negative signs of economic slow down in the industry (Mr. Pongpanich, 1997; Mr. Kajornvakin, 1997) The industry seemed to be affected by negative effects from outside countries. However, the future prospects of the industry were considered promising as the economic fundamental sounded strong and the performance of listed companies in the SET was better (Mr. Kajornvakin, 1997).

In respect of the factor conditions, the overall financial liquidity continued to increase. This was due to net capital inflow amounting to Bt 486 billion which resulted in a surplus of the balance of payments of Bt 163.3 billion. This contributed to foreign reserves of 36.2 billion dollars, equal to 6.3 months of imports (Bank of Thailand, 1995). However, the investment and saving gap was also enlarged because of a widening deficit in the balance of trade (Ministry of Finance, 1995).

In other words, Mr. Bunchinda's (1997) account on the liquidity in the financial market in 1995 and early 1996 was that it had fluctuated during the year, with occasional tightening as a result of volatile episodes in the international markets. These included the Mexican financial crisis, the uncertain value of the U.S. dollar, and the portfolio adjustment of foreign investors. On the other hand, interest rates in the Thai financial market remained rather high due to the restrictive monetary policy of the Bank of Thailand. This possibly caused tight liquidity sometimes (Mr. Bunchinda, 1997; Dr. Wongcha-Um, 1997).

Human resources in the financial industry was not as problematic as the past several years. The demands for financial professionals and analysts slackened on account of the slight slowdown of the industry (Mr. Pongpanich, 1997; Dr. WongCha-Um, 1997). The problems with respect to high turnover rate and overpaid salary were less serious (Mr. Pongpanich, 1997). However, there still was a great demand for experienced researchers and financial analysts.

Various financial infrastructure supporting the industry had been substantially developed in terms of technology and physical infrastructure (Mr. Pongpanich, 1997; Dr. Wongcha-um, 1997; and Mr. Bunchinda, 1997.) However, this remained somewhat inadequate in facilitating the dramatic development of the industry. Government regulations seemed to be supportive to the securities business, rather than the finance business which was always seemed inferior to the banking industry (Dr. Wongcha-Um, 1996). The establishment of the Securities Exchange and Commission (SEC) helped facilitate and modernise the operations of securities companies (Dr. Wongcha-Um, 1996).

Regarding the supporting and related industries, the commercial bank industry achieved a more balanced growth between deposit and credit. Commercial bank's credit extension still kept its high growth rate of 29 percent. More interestingly, the outstanding loans arranged by BIBFs, which captured about 27 % of total lending, rose by 150 % from the previous year. Meanwhile, the deposit mobilisations grew from 13.1 % in the previous year to 17.4 % this year. The increase stemmed from an effort to shield the financial industry from the volatility in the international markets (Bangkok Bank, 1995).

Other industries closely related and greatly contributing to the prosperity of the financial industry had a satisfactory performance. The manufacturing industry during the same period expanded by 11.9 percent, similar to that of the preceding year, driven primarily by a rapid increase in high-tech exports, automobiles, transportation equipment, and petroleum. The construction industry also expanded by 10% in response to high investment demand, particularly for large public infrastructure projects. Telecommunication and transportation, which also consumed a huge amount of capital, grew by 18% and 13% respectively (Bank of Thailand, 1996).

Regarding the competition in the industry, the Thai financial industry had high competition, which has continued over the last few years. This was due to a number of finance firms participating in the industry (Mr. Pongpanich, 1997; Dr. Wongcha-um, 1997; and Mr. Bunchinda, 1997). Yet, it appeared that many of the companies came from the same group, which helped each other to compete with other rivals. Thus, the real number of participants was not as many as immediately supposed. (Mr. Pongpanich, 1997). In other words, there was a strict policy to protect local firms via various laws and regulations. This helped ease the pressure of the invasion of foreigners. Besides, the future expansion in the industry's size as well as the potential reduction in the number of the finance companies brought better prospect to the industry (Dr. Wongcha-um, 1997).

To summarise, during 1995 and the early 1996, the overall prospects of the Thai financial industry had been rather bright even though there were impending signs of economic slowdown and instability. However, the instability was regarded as a cyclical effect and seemed to be ineluctable within all emerging economies. Furthermore, the overall picture of market demand, liquidity, and other facilities still sounded promising in the long-term, even though uncertain in the short term. Though the Thai financial industry was under a consolidation and adjustment period, the Thai financial industry remained attractive to international investors and brokerage houses. Therefore, the null hypothesis is rejected; the alternative one is supported. That is, *Thai Financial Enterprises (TFEs) are likely to establish international co-operative arrangements with their foreign partners when at the same time they are operating in industry conditions that are attractive to potential foreign partners.*

9.6.2 Relative Competitive Position

The eleventh hypothesis pertains to "***relative competitive position***" ($H_{11}o$ as stated earlier in chapter 4), which focuses entirely upon internal conditions of the company, compared with the industry average.

Regarding the marketing function of the company, Phatra most dominated the primary markets in Thailand (Phatra, 1995). Additionally, during this time, Phatra first underwrote a Thai company seeking a list on an overseas stock exchange, the Singapore Stock Exchange

(Phatra, 1995). Besides, Phatra was the leader of the privatisation market in Thailand (Mr. Pongpanich, 1997). Furthermore, Phatra was a leader in the debt market (Money & Banking, 1995). At that time, Phatra also achieved a market share of 5.4% in the secondary market, which made it one of the top three brokers in Thailand (SET (a), 1995).

Phatra also had 9 securities brokerage offices and 8 loan production offices situated throughout the country, which could help the company to access retail markets (Dr. Wongcha-Um, 1997). However, these offices were not full branches, and could not offer a complete range of financial services to customers on account of the regulations issued by the bank of Thailand. In addition, the number of offices could be a financial burden to the company when the economy slowed down.

With respect to the efficiency of the company's services and operations, at that time, Phatra was in the best competitive position, relative to other TFEs. The company was regarded as the best developed company in the financial industry (Euromoney, 1995). Phatra was also praised for its efficient services and operations. It was voted the number one securities firm overall by the top 25 mutual fund managers of Thailand and also obtained the highest scores for its securities research, the quality of marketing services, and other support services (Thai Capital Market Weekly, 1995).

Phatra also offered a complete range and the widest variety of services in the industry both in the finance and securities business (Thai Capital Market Weekly, 1995). According to various efficiency ratios, **total income to total assets**, of 14.51 %, compared with that of the industry average, 6.47 %. Yet, even though the company was one of the best TFEs, at that time the company remained a local company. Some aspects of its services had to be improved to meet international standards, particularly foreign initial public offering (IPO) and research.

With regard to quality of human resources, overall, Phatra had a policy of stressing the importance of human resources development and its ongoing cultivation of knowledge and ability was mirrored in its staff, which has shown a consistently high calibre, and a level of distinction in the local business community (Phatra, 1996; Mr. Ponpanich, 1997). Moreover, Phatra has gained respect for its strong moral stance. As noted below, *"Phatra has nurtured a first-rate staff, built up connections at home and abroad and earned a reputation for honesty and integrity"*

"Focus: Asian Capital Markets"

Far Eastern Economic Review, 158, 30, July 27, 1995, P.50

Indeed, Phatra's staff was recognised as being of the best quality, compared with other TFEs due to its selection and development policies. Turnover rate of the company was also relatively low (Mr. Bunchinda, 1997). Moreover, most of the company's management staff possessed informal business connections with various industries in Thailand.

With respect to Phatra's reputation, Euromoney (1995) regarded the company as the best domestic securities firm in Thailand both in 1995 and 1996. Far Eastern Economic Review (1995) recognised Phatra as one of Thailand's leading finance and securities companies and stayed a step ahead of its rivals. Also, Phatra Thanakit was ranked No.1 for domestic IPOs (Initial Public Offerings) and rated among the top ten Best Managed Companies in Thailand (Asiamoney, 1995).

Further, Phatra's profitability ratios were much higher, than those of the industry average. These ratios consisted of net profit/total income, net profit/total asset, and net profit/total equity, which were 20.96%, 3.04%, 16.53% respectively whereas those of the industry consisted of 9.88%, 0.64%, 9.70% respectively.

The ***financial situation of Phatra*** seemed stable as one of the largest banks in Thailand, Thai Farmers Bank, was a major shareholder. Regarding the **debt to equity ratio** (4.43) as well as **total loan to total public borrowings** (1.25) of Phatra was much better than those of the industry (14.15 and 1.38 respectively). As a consequence, Phatra had significantly less financial risk and greater stability in financial structure than other TFEs. In order to cope with unanticipated events, Phatra's **contingent liabilities to marketable asset ratio** (0.02) was substantially lower than that of the industry (0.29). All these ratios resulted in the uniquely strong financial stability of Phatra.

However, as the structure of Phatra's total borrowing was 77.40% from the public, 11.88% from banks, 1.30% from other financial institutions, and 9.41% from off-shore sources, compared with those of the industry which were 72.52% from the publics, 11.78% from bank, 6.55% from other financial institutions, and 9.13% from off-shore respectively, the company depended more on public borrowings, which were considered unstable sources of funds. In addition, off-shore funding rendered the company more vulnerable to foreign exchange rate risk than the industry average.

Regarding the price and cost competitiveness, according to Mr. Bunchinda (1997), Phatra relied most heavily on promissory note issuances to limited partnerships and corporations rather than individuals, which contributed to greater stability in funding structures. Moreover, Phatra also raised funds through the low-cost unit trusts which served to decrease the company's overall budget.

Nevertheless, as the company still seemed to concentrate on public borrowing and retail funding, this perhaps increased the cost of capital as a whole. Besides, the liquidity condition of the company at that time was likely to be too high as it had just raised long-term funds abroad. (Dr. Wongcha-Um, 1997). This resulted in a huge amount of interest expense if the company would not efficiently manage the funds.

Further, Mr. Pongpanich insisted that

"We never used the pricing strategy to compete with our rivals. The service fees of Phatra were always higher than the industry average as the company provided customers with premium quality of services. Therefore, we were not concerned with the price of other TFEs. Our target clients were of upper-middle to high class, which did not regard pricing as an important consideration." ***(Interview with Mr. Pongpanich, 1997)***

In conclusion, the overall competitive position of Phatra at the time of the alliance was relatively high due to its capabilities, performances, stability, and reputations. Therefore, the null hypothesis is rejected and the alternative one is supported. That is, *When Thai Financial Enterprises (TFEs) develop international strategic alliances, they have relatively strong competitive positions, compared with other rivals in the financial industry.*

On the other hand, ***with respect to Phatra's strategic thoughts behind the alliance establishment at this point in time***, the major reasons involved *seizing market opportunities* and *exploiting foreign partners' resources*. Phatra still determined to increase its market activities and expand its market base overseas with help from Goldman, particularly American investors who represented a great potential for earning revenue in Thailand. Phatra realised that if it remained reluctant, such a potential market might be penetrated by other rivals (Dr.Wongcha-Um, 1997; Mr. Bunchinda, 1997). Besides, Phatra also needed *to utilise strategic resources of foreign partners swiftly, including expertise, technology, information, and international marketing channels at the time of an alliance establishment.* Phatra remained in great need of the resources required to successfully improve its cross-border activities (Dr.Wongcha-Um, 1997). In particular, the information and marketing channels to be immediately gained from the alliance largely outweighed existing expertise at that time. This was because Phatra had undergone dramatic upheaval itself, in terms of skills and knowledge, during the period of the alliance with Warburg. However, key assets, specifically owned by global firms such as international channels, could not be built up by Phatra itself (Dr.Wongcha-Um, 1997). Furthermore, at that moment, Phatra was *a leader and greatly attractive to many foreign firms*. Therefore, it was able to bargain for its expected benefits and contributions from foreign partners.

In addition, there was another minor reason that urged Phatra to choose to establish the alliance at that time. As revealed by Mr. Pongpanich (1997),

"Of course, we accepted that Phatra attempted to make an alliance with Goldman at that time because of a sign of economic decline. Phatra needed a powerful partner to help prepare itself to cope with capital outflow, decreased foreign client bases, increased financial expenditures, and the deterioration of Thai financial institutions' images. However, this reason was not as important as various benefits to be achieved from the alliance at that time." ***(Interview with Mr. Pongpanich, 1997)***

9.7 Realised Results of Strategic Co-operation with Goldman

The overall performance of such collaboration was reviewed and evaluated in March 1996. Phatra and Goldman were very satisfied with the alliance as a whole as the co-operation had been based entirely upon mutual trust and commitment. All the alliance goals, for example, getting access through international and regional clients, enhancing knowledge and technology, developing a regional database, and strengthening overall competitive powers, had been achieved.

Recently, Phatra and Goldman have been planning to advance the pace of the research co-operation by launching a joint research paper, which would bear the heading of "Goldman-Phatra" (Mr. Kajornvakin, 1997). The research paper would be distributed to foreign and institutional investors world-wide. Moreover, several new areas of co-operation will be devised. A co-operation associated with the derivatives business, including joint issuance of new types of financial products and trading derivatives in the over-the-counter market (OTC) is a project. Innovative techniques in financial services in Thailand, such as short-selling, stock lending, covered warrants will be soon jointly developed in order to seize opportunities in doing business in these fields prior to other participants.

According to Mr. Pongpanich (1997), the following development stage involves developing an equity alliance. Goldman has always demonstrated its strong determination to take an equity position in Phatra. Though there has been smooth and satisfactory co-operation, the board of directors of Phatra remains hesitant to obtain equity strategic partners. However, there is an external threat to the finance business of TFEs that might force Phatra to admit equity participation from Goldman. That is, it is anticipated in the near future that there will be only commercial banks and securities houses in Thailand. The pure finance companies and the finance business in TFEs will definitely be eliminated due to restrictions and unfavourable government regulations. Mr. Pongpanich (1997) stated the attitudes of Phatra's business development;

*" The first alternative is that Phatra will take over several small-sized finance companies and develop itself to become a commercial bank. Second, acquiring a small-sized commercial bank and automatically raising up its status to be a bank is another choice. Finally, Phatra will allow a large commercial bank to acquire and transfer its finance business to become a part of the bank. Regarding the mentioned choices, Phatra had to completely split its finance and securities business and its securities business must be a separate entity which is highly likely to be partly owned by Goldman. However, this plan remains strictly confidential and has not been finalised." **(Interview with Mr. Pongpanich, 1997)***

Other strategic plans with respect to international alliance development have also been constructed. As Phatra's major mission is to be an active regional financial house, the company has been contacting some brokers from several countries, including Hong Kong, Singapore, Malaysia, and Taiwan. However, there have not been any solid agreements and commitments (Mr. Pongpanich, 1997; Dr. Wongcha-Um, 1997).

9.8 Strategic viewpoints and perspectives of Goldman Sachs

The Goldman Sachs Group is a leading international investment banking firm. The firm has been providing its services world-wide to a substantial and diversified client base for longer than several decades, currently with 34 offices situated in major cities throughout the world.

According to Mr. P. Kulavanit (1997), Goldman Sachs has been operating in Thailand for more than ten years. At the very beginning, the early 1990s, Goldman focused on the contact with the Thai government and provided financial services only to the public sector at that time.

Regarding the relationship with Phatra, Goldman had had an informal relationship with Phatra for nearly five years prior to establishing their formal international alliance. The two firms had been jointly advising on several financial projects and the results of the co-operation were satisfactory. However, at that time, Goldman and Phatra could not further their relationship due to the formal alliance between Phatra and Warburg. Therefore, shortly after the discontinuation of alliance between these two firms, Goldman did not hesitate to approach Phatra for a closer relationship .

The three most active areas of co-operation between Goldman and Phatra comprised research, primary market services, and secondary market services. Firstly, the research co-operation was very cohesive as both partners always transferred staff and shared information mutually across border in order to develop valid databases and effective patterns for research reports. Moreover, Goldman and Phatra would jointly publish the research papers with the heading of both firms in January 1998 (Mr. Kulavanit, 1997).

Primary market service co-operation was also of vital importance. As Goldman owned world-wide distinctive competence associated with primary market transactions, its strength was also utilised in this co-operation. Similarly, secondary market services, including brokerage volumes, were transferred to Phatra from all of Goldman's offices throughout the world. Phatra was permitted to contact all Goldman subsidiaries in the world. However, in practice, most of the day-to-day co-ordinations and contacts were centred around Goldman's offices in Hong Kong and Singapore.

A major motive of Goldman in the alliance with Phatra was to **expand its market base in Thailand with limited risks.** Evidently, as stated by Mr. Kulavanich (1997),

"Goldman desires to establish a firm and cost-effective foothold in Thailand. Also, it needs to spread out its marketing power to cover all regions in the world. As Thailand is another attractive emerging country that has potential to grow dramatically in the future, it is obligatory for Goldman to start up a business base in Thailand so as to complete its mission of being a global player. Meanwhile, Goldman does not need to invest a huge amount of capital to establish its own office, recruiting local staff, and arranging other working facilities. This method simultaneously limits investment risks and helps Goldman to gain a stable presence in Thailand in a short period of time." ***(Interview with Mr. P. Kulavanit, 1997)***

Besides, in order to accomplish the mission to expand market scope in Thailand, Goldman was expected to learn culture and Thai business customs in detail as it had never been involved much with private sectors in Thai financial markets (Mr. Kulavanit, 1997). Business connections and relationships, which are considered to be one of the most critical factors in doing business in Thailand, were also expected from a Thai partner. In this respect, Goldman greatly benefited from offering corporate finance services to Thai institutional clients and its increased brokerage volumes. Additionally, Goldman could better respond to the needs of its international clients who had a keen interest in investing in emerging markets, such as Thailand.

At that time, many TFEs approached Goldman to make a collaborative arrangement as Goldman was a world-class brokerage house and had an excellent reputation. Goldman also set its requirements for seeking a qualified Thai partner as follows. The most important criterion involved the ***quality*** of TFEs. Mr. Kulavanit (1997) defined the term "***quality***" as follows.

"Goldman required a highly professional and capable financial firm in terms of capability, efficiency, and reliability. The prospective Thai partner was expected to be uniquely strong and specialised in the field of business in Thailand that could be complementary and value-adding to Goldman. Superior reputation and image were also extremely important. In meeting these requirements, Phatra was qualified and eligible due to its strengths associated with financial service ability as well as well-organised and modern operational systems. The company had to ensure that its local partner would help it to achieve the great success in the Thai market" ***(Interview with Mr. P. Kulavanit, 1997)***

From the above context, Goldman was most concerned with ***criteria associated with synergy and complementary competencies*** of its prospective foreign partner. Another reason behind adopting Phatra as a strategic partner was related to the extent to which ***its managerial policies were consistent and compatible*** with Goldman's. Goldman was very satisfied with Phatra's managerial policies in terms of conservativeness and continuous improvement. Phatra had shown its strong commitment to self-development in becoming a regional broker. Thus, Goldman was confident and believed in Phatra. As stated by Mr. P. Kulavanit (1997)

"One thing making us confident in allying our firm with Phatra is that Phatra has never burdened, but complemented, Goldman as an eligible partner. We highly appreciate Phatra's contributions and co-operation and realise that Goldman is fortunate to have tied up with Phatra. Phatra, then, is regarded as the first choice for arranging a cross-border alliance." ***(Interview with Mr. P. Kulavanit, 1997)***

Regarding the exact timing of the alliance, Mr. Kulavanit (1997) revealed that Goldman established an alliance with a Thai firm slightly after the optimum time. This might make the company lose some part of the benefits during the industry's most prosperous time. However, this was also due to the conservative policies of the company that attempted to ensure the results of co-operation and become allied with the very best local partner. Indeed, the company did not pay much attention to short-term benefits. The long-term trend of Thai economy remained positive and then the long-term benefits could be accrued via the contributions from an eligible local partner, like Phatra. In other words, Goldman itself was always very attractive to many local firms as the company had a world-wide reputation and strengths. Therefore, the company had more chances to choose the qualified partner, obtain better terms of alliance contract, and have its alliance goals accomplished.

In conclusion, the overall performance of an alliance between Phatra and Goldman had been very satisfactory. However, whether Goldman will take a stake in Phatra or not remained under discussion between the two partners. If Phatra agreed to develop equity co-operation, Goldman was ready to do so. Recently, Goldman had remained positive to the Thai financial economy and planned to expand its scope of activities in the market. Although the current economic situation in Thailand was in a declining period, Goldman still believed in Thailand's prosperity in the long-term and regarded the situation as a negligible cyclical effect. In the long-term, the prospect of the Thai economy should be very promising and Thailand could be developed to become the financial centre of the Indo-China region. Nevertheless, there was no policy to set up a complete branch in Thailand as Goldman did not wish to compete directly with its partner, Phatra.

9.9 Conclusion

Phatra Thanakit Public Company Limited has established two major cross-border alliances with foreign partners. In 1991, Phatra partnered *S.G. Warburg*, a British financial house. After discontinuing the relationship with *S.G. Warburg*, Phatra established the current alliance with *Goldman Sachs*, a prestigious American financial firm, in 1996. The major areas of co-operation included brokerage and secondary market co-operation, primary market co-operation, research co-operation, and human resource development co-operation.

Like those of western alliances, the major motives of this alliance involved an **offensive approach, including market and resource driven motives**. More interestingly, the company was not as significantly concerned with **all motives of the defensive approach** as other alliances were. This was because the company was optimistic about the future of the industry and the company itself. Thus, it focused on its operational and market expansion via the direct and indirect contributions from its foreign partner.

Phatra selected its foreign partners by focusing on **synergy and complementary competencies**, similar to western alliances. However, Phatra switched its attention to global information networks and international distribution channels instead of skills and expertise. This was partly due to a complete skills package obtaining from the earlier alliance with S.G. Warburg. In this respect, the major components that Phatra still desperately lacked at that moment were global information and networks. Interestingly, Phatra's criteria which became much more important involved **strategic fit and compatibility** as Phatra needed to ensure the stability and long lasting nature of its strategic collaboration with Goldman, especially in the uncertain economic environment of the Thai financial industry. Meanwhile, the **purely cultural attributes and differences** between two partners were still not seriously taken into account in the partner selection process due to the modern perspectives and specific characters of the company. This issue was rather different from the Western alliances.

Regarding the strategic timing of the alliance with Goldman, though signs of economic decline partly existed, the overall prospects of the Thai financial market and economy were still considered to be attractive to foreign investors in the medium and long term. On the other hand, it was evident that Phatra itself demonstrated its relatively strong competitive power, excellence, and great stability, compared with other TFEs. This made Phatra highly attractive to many foreign firms. Therefore, Phatra chose to establish the alliance with Goldman at that time due to two major reasons. The company expected to in-time seize opportunities to gain marketing benefits and strategic resources to be transferred from its foreign partner through its superior bargaining power. Importantly, because of the uncertain economic environment in the Asian region, Phatra also partly needed to ally itself at that time in order to prepare itself for the negative effects from external threats that might materialise in the future. The summary of the firm' s international alliance is shown in table 9.2

Overall, the results of both strategic alliances of Phatra were very satisfactory. Although the first co-operation with Warburg was terminated, this was due to uncontrollable factors, not due to the results of the co-operation itself. The development of the existing alliance between Phatra and Goldman is being gradually continued without the significant effects from the uncertain environmental conditions. At the same time, Phatra is still looking for active partners from other countries such as Singapore, Taiwan, and Malaysia so as to develop itself to complete its metamorphosis into a regional player.

Table 9.2 summary of international alliance of Phatra Thanakit

Name of foreign partner	Goldman Sachs
Duration of co-operation	3 years
Type of co-operation	Non-equity co-operative agreement
Areas of co-operation	Brokerage and secondary market collaboration, primary market collaboration, research collaboration, and human resource development collaboration
Motives of co-operation	
- Market-defensive motives (competitive uncertainties)	- Not important
- Market-defensive motives (demand uncertainties)	- Not important
- Resource-defensive motives	- Not important
- Market-offensive motives	- Important
- Resource-offensive motives	- Important
Criteria of co-operation	
- Strategic fit and balance	- Important
- Synergy and complementary competencies	- Important
- Compatible operational cultures	- Important
- Differences in individual attributes	- Not important
Timing of co-operation	
- Industry attractiveness to foreign partner	- Attractive
- Relative competitive position	- Relatively strong

To summarise, the information collected through case study research provides readers with a number of aspects of the international alliances of Phatra. The unique patterns of the co-operation have been explained in detail here. Managerial perspectives from large-sized and powerful firms have also been displayed. As Phatra had allied itself with a previous foreign partner before establishing the current one, the detailed information and strategic reasons of the termination of the previous alliance have been provided. The starting point of the current cross-border alliance and the impacts from the last co-operation have also been critically discussed in order to offer a complete picture of the firm's international co-operation. Further, some sensitive and interesting issues have been unearthed by the case study method. For example, the use of "gentleman agreement" as a main part of the co-operation contract has been revealed. The process of negotiation and discussions between the company and its foreign partner is also shown in the case.

The implicit reasons that the company chose non-equity collaboration over other forms of co-operation have been presented in the case. The mandate and regulations of the firm are of importance in this respect. Further, strategic thoughts behind the establishment of the alliance, including key relevant factors associated with such a process, are analysed and discussed based on rich information gathered by case study research. The case study also shows how the previous international alliance influences the current strategic co-operation. Confidential issues at the policy planning level of the firm are disclosed by in-depth interviews with key executives. Strategic planning and philosophies of the firm also play important roles. The ideas focusing on long-term and sustainable competitive advantages in alliance formation lie at the heart of the process in this case.

The process of foreign partner selection has also been revealed in detail. The ways how to develop the selection criteria to be suitable for real alliance needs and its overall objectives have been discussed in the case. Also, the powerful and strong competitive status of the firm influences the formation process. The firm has a clear aim to become a regional player in the future and focus heavily on long-term development. Short-term benefits from alliance timing selection are less emphasised by the firm. The important success factors, consisting of trust, sincerity, and mutual long-term development, were revealed. The need for alliance improvement also shed light on how to make better future international alliances in developing countries.

Regarding theoretical perspectives, the international characters of Phatra's cross border alliance can be analysed by relevant theories as follows. First, **transaction cost theory,** the cross border alliance helped economise costs associated with acquiring Phatra's needed international financial services, consisting mainly of research databases and international marketing distribution channels. Strong ties and official links between foreign partners in this case created commitment to provide each other with efficient cross-border transfer of competencies. International training and development programmes for Phatra's staff were also a major activity in the cross-border co-operation. The costs of international service procurement from foreign firms were then dramatically reduced in this case. Further, as Phatra aimed to gear itself towards wholesale rather than retail business, the international collaboration helped the firm to lower transaction costs and obtained greater flows of incomes. This was because the alliance provided the firm with a huge amount of wholesale clients, consisting of foreign and institutional clients. Providing services to the wholesale group of customers resulted in economies of scales in the companies. On the other hand, the cross-border alliance also helped Goldman to have a firm and cost-effective foothold in Thailand without a huge capital investment. Various activities in the co-operation, including international research activities, primary market transactions, and cross-border brokerage services, could be achieved more efficiently due to the physical facilities and local business connections of Phatra. The optimum use of both partners' resources and competencies across borders led to the limited risks and decreased overall transaction costs of the international activities.

Second, regarding **resource-based perspectives**, both partners had dependency on each other's resources. In the first step, *preservation of resources*, Goldman possessed its unique set of strategic resources, comprising mainly financial advisory and brokerage expertise, regional research information, international marketing distribution channels and foreign customer base. All the resources are at the global and international level as Goldman is a world's leading brokerage house. In other words, Phatra had distinctive competencies in terms of local business foothold, marketing networks and databases, local business connections, experienced and capable staff, and other physical working facilities.

Next, *absorption of resources*, in this step the resources are transferred and jointly utilised between partners. Phatra hugely benefited from its foreign partners' resources via joint primary market and secondary market operations. Cross-border financial advisory projects could be accomplished by mutual contributions from both partners, particularly the expertise and international networks of Goldman. Foreign brokerage operations in this alliance also helped gear Phatra towards wholesale securities business, which was more profitable and stable than retail business. Goldman also had its firm foothold to start up a business base in Thailand, together with local office, staff, and working facilities. Local business networks and connections of Phatra helped Goldman to participate in the Thai financial industry more efficiently. Also, learning and transfer of tacit skills was emphasised. Phatra could learn international-level expertise in financial service operations from Goldman. In return, Goldman started to develop its skills in the local business practices and customs in Thailand. In this respect, co-operation in pursuing large-scale and international financial deals helped both partners to learn from each other. Phatra could learn the professional styles of international financial services. Goldman was able to be more familiar with Thai business practices and learn how to approach and deal with Thai institutional customers.

Finally, *in the symbiosis stage*, both firms' strategic resources were combined to create new strategic advantages. Distinctive assets and capabilities from the partner firms could contribute to better images and reputation to customers, in both local and international markets. Goldman became well-known to Thai customers while Phatra was more likely to be recognised in regional financial markets. A joint research paper, which bears the heading of "Goldman-Phatra", was created by mutual contributions from both partners and distributed to Thai and foreign investors. This research report had unique strengths, consisting of local market sentiments and global directions. Moreover, due to synergy from the combined resources of both partners, the international collaboration was likely to be developed to become an equity alliance, perhaps an international joint venture. This helped both firms to generate greater competitiveness and efficiency in both international and local markets.

Regarding **the eclectic paradigm of international production**, the "O" (ownership) advantages of Phatra that encouraged it to engage in international activities comprised know-how and expertise in primary and secondary markets in which the firm is the leader in the market. In particular, the firm possessed solid experience and familiarity with wholesale customers, including foreign and institutional clients. This was due to the past intensive relationship between Phatra and Warburg. Also, Phatra had a strong financial position and a complete range of financial services to offer. This meant that the firm had high potential to expand its business base abroad. The "O" advantages of Goldman were very distinctive. The firm was one of the world's leading financial houses, which possessed advanced expertise in international financial services. Further, its world-wide reputation was recognised and its international marketing networks and customer base are extensive. The firm could expect to use its owner specific advantages to acquire greater benefits from international expansion.

In this case, both firms had to consider the appropriate way to internalise (I advantages) their O advantages. Phatra, even though it was the market leader and strongest TFE, remained a local enterprise which needed to be more exposed to the global environment prior to going international alone. The go-it-alone strategies then seemed to be too time- and resource consuming in this case. Further, cross-border mergers and acquisitions were not appropriate to the firm due to the strict policies of the company itself and the Thai government. Also, taking over a foreign firm was too risky for the firm as it still needed to make itself more stable first, in terms of capital and capability. Therefore, a cross-border alliance with a foreign partner seemed to be the most suitable option at the time. On the other hand, Goldman realised that it was too risky and resource-consuming to invest a huge amount of capital investment in the Thai financial industry without prior solid experience and business base. In this respect, Goldman did not want to invest in its own office, local staff, and other operation facilities. The partnership with Thai partners was a sensible way to gain a stable and fast presence in Thailand with limited risks. Further, Thailand was an attractive emerging country and had the potential to dramatically grow in the future (L advantages). In particular, the Thai financial industry had high business opportunities, abundant resources, and strong support from the government. Moreover, Goldman had been operating in Thailand for more than ten years prior to the present alliance. The firm then realised the high potential of the Thai financial economy. Thus, Thailand was likely to be a suitable place for the firms to exploit their advantages and achieve benefits from their international activities.

The next, tenth, chapter, focuses on the international strategic alliances of Siam City Credit Finance and Securities Public Company Limited, a medium-sized Thai financial enterprise. All strategic perspectives of SCCF's executives concerning the issue are critically discussed.

Chapter 10
Case Study II: International Strategic Alliance Formation of Siam City Credit Finance and Securities Public Company Limited

10.1 Introduction

This chapter involves the case study on international strategic alliance formation of Siam City Credit Finance and Securities (SCCF). The case starts with the background and an overview of the alliance. The following sections explain the SCCF's strategic motives, criteria, and timing of the alliance establishment. The results from the co-operation are shown. The additional perspectives from the foreigner's side, Credit Lyonnais Securities Asia (CLSA), also appear in the subsequent part.

The interviews were conducted with the informants as shown in table 10.1.

Table 10.1 Names of Informants of SCCF Public Company Limited

No.	Names	Positions	Date of Interview
1	Mr. S. Phansuwan	Managing Director	March 3, 1997
2	Mr. T. Mahaphokai	Vice President of Research and Securities Analysis Department	March 5, 1997
3	Mr. P. Auakamolsukho	Executive Vice President	March 17, 1997
4	Mr. S. Siripongsepaiboon	Deputy Managing Director	March 28, 1997
5	Mr. D. Clayton	Managing Director of CLSA (Thailand),	April 22, 1997

10.2 Background to SCCF's International Alliance

Initially, SCCF considered several growth strategies. However, strategic alliances were the most attractive to the company. According to Mr. Phansuwan (1997), he did not figured that **merger and acquisition strategies** would be suitable for SCCF due to the following reasons. First, the policy of the firm's major shareholder, Siam City bank, did not allow SCCF to merge with or take over foreign firm. This was because the bank was afraid to lose ownership and managerial control over SCCF. Second, SCCF remained much inferior to foreign firms in terms of capital, technology, and skills. The company then could not control or manage foreign firms in this respect. On the other hand, SCCF also implemented **internal growth strategies** in parallel with strategic alliances. However, it was not very efficient as the company still lacked strategic resources and skills to grow by itself (Mr. Siripongsepaiboon, 1997; Mr. Phansuwan, 1997)

Originally, SCCF wished to establish an equity-linked relationship, such as minority equity alliance or joint venture, rather than loose business co-operation in order to strengthen the relationships between partners. This was because such equity collaboration entitled greater obligation and long-term commitment between partners, due to the large amount of mutual capital investment. Thus, it promised to be a very strong tie that connected both firms together in order to mutually develop their co-operation in the long term (Mr. Siripongsepaiboon, 1997; Mr. Auakamolsuko, 1997).

Nevertheless, SCCF feared that an equity alliance, particularly a joint venture, seemed like a "*marriage*" between two firms. Thus, SCCF decided to take a cautious collaborative approach to its foreign partner before deciding to commit itself. As revealed by Mr. S. Siripongsepiboon:

*"SCCF planned to launch some measures for its international alliance before allowing a foreign partner to take an equity position in the company. Those measures were set up to prevent alliance failure, resulting from incompatibility between two partners, and to ensure the satisfactory results of the co-operation. Initially, SCCF signed up a contractual agreement with its partner in order to start co-operative activities. This first step took approximately 2 years and seemed like "a test period for the following intensive collaboration."" **(Interview with Mr. Siripongsepaiboon, 1997)***

In this case, SCCF designed its alliance contract, which consisted of an option for its foreign partner to exercise. If the foreign partner met all the requirements determined by the contract, the partner could choose whether or not to exercise the option so as to hold a stake in SCCF at the specified price and in the agreed proportion. In greater detail, the strike or exercise price determined in the contract ranged between the market price of stock and the book value per share of the company. The price would vary within this range, depending upon various internal and external conditions when the foreign partner exercised its options.

In addition, the agreed proportion of the ownership in SCCF that would be taken by the foreign partner was 20 per cent. The proportion would possibly increase to 30 per cent, depending upon the scale of contribution and performance of CLSA. (Mr. Phansuwan, 1997).

In order to ensure satisfactory results and longevity of the alliance, the requirement for exercising options, set by SCCF, were as follows: The first one involved the marketing contributions and abilities of the foreign partner. By employing a brokerage volume transfer as an indicator, the foreign partner was obliged to provide SCCF with foreign brokerage volumes of at least 20 per cent of the total brokerage volume of SCCF. SCCF included this criterion so as to justify whether or not it was commercially viable to allow the foreign partner to take a stake in the company. In reality, ***the company intended to consider not only the marketing capability of the foreign partners but also its commitment, sincerity, and attention contributed to SCCF***. According to this logic, the more the amount of business transferred, the greater the commitment and consideration shown by the foreign partner to SCCF (Mr. Phansuwan, 1997;Mr. Siripongsepaiboon, 1997; and Mr. Auakamolsokho; 1997).

The second consideration was related to the research activities. SCCF focused on the foreign partner's contributions to the company in terms of **the quality and quantity of research papers produced by the joint research unit**. Whether the research papers were distributed regional-wide, whether they were internationally accepted, and whether they provided accurate and timely information for investment decisions were the major measures of achievement (Mr. Phansuwan, 1997; Mr. Siripongsepaiboon, 1997; and Mr. Auakamolsokho; 1997).

Finally, the satisfactory and smooth co-operative conditions among partners were absolutely paramount. If both partners were satisfied with the alliance, this meant that the major achievement of the alliance major objectives had been accomplished (Mr. Phansuwan, 1997).

With respect to the above requirements, most of them were rather subjective. Resolution of these issues could not be divorced from feelings, attitudes, and personal judgement. Hence, the final decision had to be reached through the brainstorming procedure of the board of directors.

10.2.1 The Areas of Co-operation

There were four areas of co-operation between SCCF and CLSA laid out below.

- **Brokerage collaboration**: as stated previously, there was an agreement to transfer securities buying and selling orders to each other. CLSA was obliged to exclusively provide SCCF with all of its securities orders investing in the Thai financial markets. In return, SCCF was supposed to send all local securities orders through its foreign partner, CLSA. However, at this phase, there was a low volume of local securities transactions investing in foreign countries' markets as the financial regulations in Thailand were particularly restrictive in cross-border portfolio investment.
- **Research Collaboration**: CLSA and SCCF jointly established a strategic research unit in Thailand. CLSA played a leading role in this co-operation. The firm provided SCCF with global directions and guidance in preparing a professional research paper in terms of analytical methods, patterns, writing techniques. CLSA sent three researchers and analysts to work at the joint research department in Thailand. These professionals were responsible for jointly preparing research paper with the staff of SCCF. Simultaneously, they transferred skills and trained SCCF's research teams to be more capable in order to meet international research standards. In addition, SCCF's analysts periodically went to join on-the-job training programmes both at CLSA's headquarters in Hong Kong and at its representative office in Bangkok.
- **Corporate Finance Co-operation**: This collaboration involved the joint cross-border financial deal arrangement, such as underwriting, sponsoring, off-shore loan syndication. CLSA was responsible for providing expertise and technology in handling corporate financial deals as well as for taking care of foreign activities. Furthermore, international distribution channels were provided by CLSA in this respect. In return, SCCF handled all local matters, for example local client approach, relevant government organisation contact, and local fund raising.
- **New skill development**: There was a commitment that CLSA offered SCCF's staff a wide range of training programmes with respect to securities operations, sales techniques, and back office expertise. In particular, the new concepts of financial

instruments, trading methods, and advanced techniques were emphasised in training SCCF's staff.

10.3 Strategic Motives and Underlying Needs of SCCF

The first aspect of alliance motive is related to the ***market-defensive approach.*** Initially, the market-defensive motives in respect of ***dealing with competitive uncertainties*** (H_1o as stated earlier in chapter 4) is examined.

Mr. Phansuwan (1997) offered a viewpoint to the company that:

"Regarding my experience, SCCF could gain prosperity by acting as an international broker as well as focusing on international markets. I anticipated that the Thai financial industry had to be liberalised and internationalised in the near future and the Thai financial economy had to rely more on foreign participation. Thus, it appeared to have an urgent need for TFEs, including SCCF, to improve their international competitiveness for surviving in the current and future intensely competitive market. The most appropriate solution to my mind, at that time, was to develop international friendships and use them as short cuts to become more involved with foreign environments." ***(Interview with Mr. Phansuwan, 1997)***

Mr. Siripongsepaiboon (1997) also asserted that the financial liberalisation forced the company to establish a cross-border alliance. Indeed, the company needed to make its securities operations survive in the fierce market.

In addition, SCCF wished to defend itself from the competitive imbalance of the market. Normally, most of the foreign securities orders were sent to foreign brokers prior to placing the orders to TFEs. In this respect, foreign investors had to pay double commission fees, which was around 1 % of the total trade volume and was considered a huge amount of money. However, in reality, it was necessary for foreign clients to first place their orders through a global or regional broker due to superior services in terms of research, investment information, advice, and professional executions. Foreign broker also needed to receive integrated margin and did not want to share the profit of securities operations with Thai brokers. Very soon, the foreign brokers were going to invade the Thai financial industry and directly serve foreign clients on their own due to the liberalisation policies. If TFEs remained inferior to their foreign rivals, the company might end up insolvent. Thus, the company had to develop cohesive linkages to prepare itself to stare off the high competition both from foreign and domestic rivals (Mr. Phansuwan, 1997).

Apparently, SCCF aimed to survive in the competitive and unstable economic situations at present and in the future (Mr. Siripongsepaiboon, 1997; Mr. Auakamolsukho, 1997). SCCF realised that the Thai financial economies would be liberalised in the near future due to the forces unleashed by GATT and WTO (World Trade Organisation). TFEs, including SCCF, could no longer be only a local firm if the company needed to survive and defend its market position amongst fierce domestic and international competition. Therefore, the null hypothesis is rejected; the alternative one is supported. That is, *the market-defensive motives in respect of dealing with competitive uncertainties stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

The second hypothesis involves ***market-defensive motives in respect of dealing with demand uncertainties*** (H_2o as stated earlier in chapter 4).

Mr. Siripongsepaiboon (1997) and Mr. Mahaphokai (1997) believed that the structural changes in the market considerably affect the clients' behaviours. Consequently, this made the situations in the market more difficult for the company. Over the past decade, the Stock Exchange of Thailand (SET) had been structured approximately in the ratio retail investors (70%) and institutional clients (30%), the latter comprising mutual funds and foreign investors. Rumours as well as short-term and speculative investment led the market. However, recently the client structure of the market was suddenly adjusted to become approximately 50% of retailers and 50% of wholesalers. The retail investors experienced a great loss due to their inferior investment decisions. Furthermore, the foreign participation in the SET increasingly intensified more than ever. The new market structure shocked the market and radically influenced market behaviour to become more internationalised. In this respect, SCCF itself could not cope with it as the company had never experienced any foreign transactions and activities. Thus, asking for some help from a foreign firm via a permanent international partnership was considered a prudent course for SCCF (Mr. Siripongsepaiboon, 1997; Mr. Mahaphokai, 1997).

Besides, Mr. Phansuwan (1997) stated that

"At that time, though SCCF was supported by Siam City Bank in terms of funding, the company did not have solid expertise and experience in the securities business. Moreover, its major local partner, the Siam City Bank, could only provide SCCF with assistance on

credit business, not securities one. The company, then, had to seek assistance from an alternative source, a foreign securities broker, as the foreign broker could help the company to keep pace in the industry after the Thai financial market had been transformed and dominated by foreign investors. This would lead the Thai financial market into the new era of focusing on research orientation and demand complexity" ***(Interview with Mr. Phansuwan, 1997).***

The previous discussion proves the importance of market-defensive motives designed to counteract demand uncertainties in fostering SCCF's alliance establishment. The company had to cope with the financial market which was dynamically and radically changing with regard to demand patterns of target clients. In particular, the changes in the market were led by foreign investors. Therefore, sustainable co-operation with a foreign partner seemed to be the sensible and pragmatic course of action. As a result, the null hypothesis is rejected and the alternative one is supported. That is, *the market-defensive motives in respect of dealing with demand uncertainties stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

The third hypothesis is ***the resource-defensive motives*** (H_3o as stated earlier in chapter 4). The motives focus on TFEs' resource dependence on their foreign partner in developing an alliance. This is aimed at acquiring resources that TFEs lack in order to stabilise their strategic situations and continue their operations.

In this respect, Mr. Phansuwan (1997) stated that SCCF did not need to depend heavily on its foreign partner's resources in order to continue its regular operations as the company itself possessed enough resources, particularly financial resources. This is because the company had Siam City Bank as a capital base in Thailand. Besides, the bank also helped SCCF to provide advice for its finance and credit services.

However, Mr. Mahaphokai (1997) clearly insisted that the requisite resources must be made available for research tasks that

"I realised that SCCF had to establish the alliance with a foreign broker because the company badly needed a foreign partner's resources, particularly those involved with research department. SCCF's research department remained weak and required immediate resources transferred from its partner in order to help cope with the rapidly changing business environment in the industry. Our research still could not respond to the demands of institutional local and foreign investors, which were considered the major target groups of SCCF. We had to sell our products to the investors and to maintain our market shares.

*Otherwise, the company might fade away from the market." **(From the interview with Mr. Mahaphokai, 1997)***

Also, Mr. Siripongsepaiboon (1997) and Mr. Auakamolsukho (1997) still reckoned that SCCF did not have an adequate range of resources to maintain its professional financial operations in the industry. The company had to request plenty of assistance from its foreign partner in order to survive both in the short and long term. Cross-border relationship was also expected to provide necessary resources in terms of funding, skills, systems, and information. This would aid the stability of the company.

Therefore, the company's alliance was aimed at providing the necessary resources for stabilising and maintaining the same level of operation although there was a claim that SCCF had its local partner to help sort out the fundamental problems associated with its operations. Thus, SCCF remained in need of stable resource flows with respect to its securities activities from a foreign broker. Therefore, the null hypothesis is rejected and the alternative one is supported. *That is, the resource-defensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

The next hypothesis is ***the market-offensive*** motives (H_4o as stated earlier in chapter 4). These motives involve the development and enhancement of TFEs' capabilities via their cross-border alliance in order to further expand their market scope

In this context, business and market expansion in foreign markets was also considered to be a critical step towards becoming an international broker. SCCF strongly believed that a cross-border relationship helped gain greater opportunities in doing business abroad and even in the local market (Mr. Siripongsepaiboon, 1997; Mr. Auakamolsukho, 1997).

Likewise, Mr. Phansuwan (1997) asserted that the dramatic and continuous improvement in operational and managerial efficiency usually accompanying such cross-boarder relationships actually inspired SCCF to develop an alliance with a foreign partner. The company consequently wished that its market share in the financial market could be increased. Similarly, according to Mr. Phansuwan (1997) and Mr. Siripongsepaiboon

(1997), at that time, SCCF regarded itself as a financial professional only in the local industry. The company remained incapable of competing with major rivals in the global financial industry, in terms of competencies. Thus, SCCF realised that a timely and efficient way to develop its competencies was by learning from its strategic partner who already possessed advanced financial expertise and skills.

Mr. Auakamolsukho (1997) stated that "*SCCF intended to employ the alliance as a "short cut" to modernise SCCF with an instant and complete package of know-how and advanced competencies from its partner. The partner could provide SCCF with an instant complete package of competencies. Also, SCCF expected to develop its professional managerial styles and expert service systems in the company as they were key components of an international broker. The purpose of the alliance, then, was to further its success in both domestic and international markets.*" ***(Interview with Mr. Auakamolsukho, 1997)***

From the above discussions, it is clear that SCCF needed to improve its competitive position in the market via sustainable improvement to be obtained from the international alliance. The company also planned to proceed its market activities with co-operative contributions of its foreign partners. Therefore, the null hypothesis is rejected and the alternative one is supported. *That is, the market-offensive motives significantly stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

The fifth hypothesis is ***the resource-offensive motives*** (H_5o as stated earlier in chapter 4). In this respect, TFEs focus on the utilisation of foreign partner's resources in order to further develop their scope of operations and improve overall performance when establishing the alliance.

In this respect, Mr. Phansuwan asserted that

"*The company really needed resources transferred from its partners, in the form of foreign securities client bases provided by the foreign partner so as to increase its regional exposure. Thus, the company remained in need of stable, long-term business volumes, foreign market bases, and international marketing channels. This could be provided only by alliance with a foreign partner.*" ***(Interview with Mr. Phansuwan, 1997).***

Likewise, SCCF also wished to gain immediate returns in the forms of securities orders transferred from its partners. This would help SCCF to earn an enormous amount of cash shortly after the alliance co-operation began. Also, many cross-border corporate finance deals, which could offer both immediate and long-term benefits to SCCF, would be facilitated by the sudden contributions of a foreign partner. The company could approach these foreign clients via the international networks of a foreign partner. For example, international road show, off-shore underwriting, and foreign fund raising had to be completed by a global financial house, rather than a local firm. In addition, a foreign partner's long-term connections with international clients who were interested in participating in Thailand in the forms of investment, take over, and joint ventures, could be used to promote the services of SCCF (Mr. Siripongsepaiboon, 1997; Mr. Auakamolsukho, 1997).

Another major resource to be sought from the international collaboration was **world-wide database** (Mr. Mahaphokai, 1997). In this respect, SCCF aimed to be capable of acquiring accurate and timely database in order to publish well-analysed and -organised international research papers.

The company then focused more on the transfer of the resources from its prospective partner in order to enhance its competitive capabilities in the industry. The most important resources required by the company comprised international marketing networks, client bases, and global information. In conclusion, the company realised that the resource-offensive motive was an important factor in fostering the international alliance. Therefore, the null hypothesis is rejected and the alternative one is accepted. *That is, the resource-offensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

10.4 How to seek and collaborate with CLSA

At the first stage in seeking a foreign partner, Mr. Phansuwan (1997) revealed that

"SCCF developed brief proposals with respect to cross-border co-operation and tendered them to five foreign firms. The details contained in the proposals were relevant to the objectives, contents, and conditions of the co-operation. Also, the major requirements for co-operation, and alliance strategy implementation were determined. Moreover, in order to attract the foreign houses, the expected benefits for foreign partners were clearly highlighted in the proposal." ***(Interview with Mr. Phansuwan, 1997).***

In this context, the major issues related to the immediate benefits that the foreign partners could gain from SCCF's broker seat in the SET, full financial licences, and its local business networks. Moreover, there was an option for a foreign partner to take an equity position in SCCF in the future. This feature was very distinctive as there had not been any TFEs' alliances offering such an opportunity to foreign partners before. However, the option was offered confidentially as the SEC (Securities Exchange and Commission of Thailand) at that time seemed to disagree with the concept of foreign equity participation in TFEs. The SEC was acutely aware of the dangers of foreign domination by foreigners in the Thai financial industry (Mr. Phansuwan, 1997; Mr. Siripongsepaiboon, 1997)

The first consideration on alliance criteria was on "strategic fit and compatibility". The sixth hypothesis involves ***criteria associated with strategic fit and compatibility*** (H_6o as stated earlier in chapter 4).

In this context, SCCF paid particular attention to ***strategic perspectives and visions of top executives*** of the foreign firm. The strategic perspectives of SCCF and its partner had to converge as the companies needed to get along well together. Besides, the familiarity with Thai managerial styles eased potential conflicts between partners (Mr. Phansuwan, 1997; Mr. Siripongsepaiboon, 1997).

Mr. P. Auakamolsukho (1997) SCCF's executive vice president, investment banking division, also confirmed and added some interesting points concerning foreign partner consideration that

*"So as to achieve the objectives of the alliance, in selecting a foreign partner, we paid most attention to the foreign partners likely to "**get along well and stay long-term with SCCF**". So, we emphasised the compatability between SCCF and its foreign partner, particularly in the managerial perspectives, strategies, and systems. As SCCF also aimed to stabilise and prolong its alliance co-operation, the company needed to balance power between the two partners, both local and foreign firms. Therefore, SCCF was highly concerned about "**size**" of the foreign firms as size was usually an indicator of negotiating power. SCCF preferred to collaborate with a foreign firm of similar size and negotiating position."* ***(Interview with Mr. P. Auakamolsukho, 1997)***

The concept of power symmetry between partners was also adhered to (Mr. Phansuwan, 1997). The company did not want to be dominated by the more powerful partners, which would result in an unbalanced benefit allotment and an unstable relationship. Therefore, SCCF did not distribute its proposals to the first or second largest brokerage firms in the region.

Another important relevant issue for partner selection was business strategies and managerial policies of foreign partners. Obviously, SCCF paid no attention to American firms as stated by Mr. S. Siripongsepaiboon, deputy managing director of SCCF,

*"The company believed that, due to the strategies and managerial policies of the American firms, the firms had no strong commitment to develop long-term relationships with TFEs. Evidently, American financial firms usually collaborated with TFEs for a limited time period. The firms were ready to switch to other TFEs if the greater benefits were offered. According to SCCF's opinions, such a relationship would be named "**numerical-based relationship**" as the Americans seemed to concentrate on short-run profits reflected in financial statements. So, SCCF considered that its policies are not compatible with those of American firms." **(Interview with Mr. S. Siripongsepaiboon, 1997)***

Positive long-term visions and attitudes of the partner towards the Thai financial markets were also important. SCCF desired a foreign partner who had been exposed to and was familiar with the Thai financial industry as this resulted in less friction in cross-border co-operation between two partners. The foreign partner's exposure to the Thai markets prior to alliance with a TFE could prove its genuine interest and intention to participate in Thailand. In this context, whether the foreign partner committed itself to the Thai financial market, whether the partner regarded the Thai financial industry as its major investment, and whether the partner appreciated strong potential of the Thai financial markets were the major issues to be considered (Mr. Phansuwan, 1997; Mr. Siripongsepaiboon, 1997; and Mr. Mahaphokai, 1997).

From all the discussions, SCCF seemed to focus heavily on the foreign partner's strategic intent which had to be consistent and similar to that of the company. Visions, goals policies, and other strategic attributes were taken into account for foreign partner consideration. Therefore, the null hypothesis is rejected and the alternative one is supported. That is, *the fit and balance of strategic intent composed of long-term objectives, major strategies, and managerial systems are of significant concern to Thai Financial Enterprises (TFEs) in the foreign partner selection.*

The seventh hypothesis is strategic criteria associated with ***synergy and complementary competencies*** (H_7o as stated earlier in chapter 4).

According to Mr. Phansuwan (1997), SCCF was also in great need of the advanced competencies of a foreign partner, which SCCF seriously lacked. The major competencies included **international networks, past performance, ranking, securities volumes transferred, international calibre of executives**.

The company highly regarded international marketing networks and connections of foreign partner as a key element (Mr. Phansuwan, 1997; Mr. Siripongsepaiboon, 1997; Mr. Auakamolsukho, 1997; and Mr. Mahaphokai, 1997). In this respect, CLSA has intensive world-wide networks as the company was in the group of Credit Lyonnais Bank which is a global financial enterprise. CLSA is able to access and utilise all distribution channels and networks afforded by a global corporation like Credit Lyonnais.

SCCF still needed a foreign partner who had great international potential (Mr. Phansuwan, 1997). In reality, CLSA is a subsidiary of Credit Lyonnais Bank and under the management of the CL group of companies in France. In this respect, CLSA acts as a "strategic business unit" of the CL group, which is responsible for all activities associated with securities and brokerage businesses. It seems to be an "arm-length" operation specifically taking care of securities activities in Asian and neighbouring countries (Mr. Phansuwan, 1997).

Furthermore, the quality of management staff was significantly considered (Mr. Mahaphokai, 1997). CLSA's top executives are highly prestigious and internationally acclaimed. Dr. Jim Walker, one of CLSA's top executives, is a capable economist who has profound knowledge of the Thai financial industry. Therefore, at that time CLSA was also considered to be very qualified due to its advanced capabilities (Mr. Mahaphokai, 1997).

As clearly stated, SCCF's executives were highly likely to take "*synergy and complementary competencies criteria*" into account in selecting a partner as the company remained totally local and did not have international skills and expertise. It needed to have such complementary competencies transferred from its partner. Therefore, the null hypothesis is rejected and the alternative one is supported. As a result, *Thai Financial Enterprises (TFEs) interested in allying themselves with foreign partners regard synergy and complementary skills as the major criteria in selecting foreign partners.*

The eighth hypothesis of selection criteria of TFEs involves ***operational cultural differences*** of the foreign partner ($H_8 0$ as stated earlier in chapter 4).

SCCF was also significantly concerned with operational compatibility with its prospective foreign partner. According to Mr. Phansuwan (1997), there had been many cases of TFEs' cross-border alliances that were terminated due to problems associated with working-level staff. The incompatibility between staff of two partners led to misunderstandings and friction in co-operation. In addition, Mr. Siripongsepaiboon (1997) further confirmed that these problems principally resulted from differences in working styles and operational viewpoints. Usually, Thai people were flexible and conservative. In contrast, foreign staff were rather systematic, strict, and aggressive. This caused friction between partners and resulted in the unfavourable performance of the alliances. Eventually, the alliances were discontinued because of insurmountable operational differences. Hence, SCCF carefully considered the similarity of styles and cultures of business operations between SCCF and its prospective partners (Mr. Siripongsepaiboon, 1997).

However, there was another interesting point revealed by Mr. Siripongsepaiboon, (1997).
"SCCF realised that these co-operative problems were "part and parcel" of any cases of international collaboration. We had to learn how to cope with the differences rather than side-stepping them. However, such problems would be less serious in the co-operation between CLSA and SCCF. This was because CLSA is originally from European countries, whose styles of working were less aggressive than American firms. Therefore, the operational differences were expected to be manageable." ***(Interview with Mr. Siripongsepaiboon, 1997).***

In brief, SCCF stressed that the importance of operational cultural compatibility between two firms in selecting a foreign partner although sometimes the differences could not be completely eliminated. This was because the company focused on trying to preempt any potential obstacles to progress. Therefore, the null hypothesis is rejected and the alternative one is supported. That is, *the operational cultural differences between Thai Financial Enterprises (TFEs) and their potential foreign partners are considered a crucial factor in establishing the TFEs' international networks.*

The ninth hypothesis associated with strategic criteria is ***individual attributes and pure cultural issues*** of a foreign partner ($H_9 o$ as stated earlier in chapter 4).

In this respect, although SCCF's alliance motives focused more on long-term development and stable co-operation, the company was not concerned with the effects of **pure cultural differences** between partners (Mr. Phansuwan, 1997; Mr. Siripongsepaiboon, 1997, Mr. Auakamolsukho, 1997, Mr. Mahaphokai, 1997). In particular, the company did not believe that differences in manners, lifestyles, religions, and other individual characteristics would significantly affect the performance of inter-firm co-operation (Mr. Phansuwan, 1997 and Mr. Siripongsepaiboon, 1997). SCCF accepted that the differences had to exist, particularly in cross-border alliances where both partners came from different countries (All, 1997). However, this was considered to be normal for SCCF as the company was already prepared to become an international firm. Hence, the differences could be managed and also regarded as a challenge in SCCF's staff training (Mr. Phansuwan, 1997).

The company clearly demonstrated that purely cultural aspects were not important to its partner selection process. Therefore, the null hypothesis is accepted. That is, *the individual attributes of foreign partners are not regarded as major criteria in TFEs' foreign partner selection process.*

10.5 Strategic timing of Alliance with CLSA

10.5.1 Industry Attractiveness

The researcher assumes that there are two indicators that prompt TFEs to establish their cross-border alliance at the appropriate time. In this respect, there are two major hypotheses pertinent to the determining of TFEs' alliance timing, industry attractiveness and competitive position. The tenth hypothesis is related to "**industry attractiveness**" ($H_{10}o$ as stated earlier in chapter 4).

Regarding the demand conditions of the Thai financial industry at the time, the key economic conditions of Thailand at the end of 1993, which affected the demands of the industry, had improved from the pervious year. The economy grew tentatively by 7.5 %. Moreover, in the first quarter of 1994, the Thai economy continued the solid growth of the previous year. The expansion was mainly driven by exports and higher commodity prices.

Export growth accelerated to 22.9%, compared with the same period in the previous year. (Bank of Thailand, 1994).

The capital market during 1993 was vibrant and dramatically expanding. Public offerings amounted to Bt 154.7 billion, increasing by 56.3% from the previous year (SEC, 1993). This year was marked by the private sector's increased use of debt instruments, which raised Bt 16.6 billion from domestic and Bt 39.5 billion from foreign institutional investors (SET, 1993; Bank of Thailand, 1993). In addition, during the same period, trading on the Stock Exchange of Thailand (SET) was bullish, with the SET index closing at 1,682.9 at December, up by 88.4% from the same period last year. This resulted from the high liquidity conditions and lower interest rates, together with the surge of capital inflows to the stock market (SET, 1993). Also, all of SCCF's executives agreed that the financial and capital market during the alliance development period was growing fast. Besides, the long-term trend of the market was also promising (All, 1997).

With reference to factor conditions, Thai finance enterprises enjoyed high liquidity conditions and low interest rates (Mr. Phansuwan, 1997). Due to the large capital inflow and the expansion of deposits, liquidity in the financial system was relatively high, except during certain periods experiencing unforeseen or seasonal variations. With regard to the high liquidity in the financial system, the interest rates in the short-term money market moved downward, and were even below overseas rates in the same periods. (Bank of Thailand, 1993).

However, in early 1994, the overall liquidity in the financial system lessened slightly as disparity between deposit and credit extension widened inexorably. Stock trading in the first quarter of 1994 slackened from the end of 1993 and the SET index declined. This was due to the markedly weakening US dollars against Japanese Yen (Bank of Thailand, 1994).

Concerning ***support from the government***, various public authorities closely related to the financial industry such as the SET (Securities Exchange of Thailand), Ministry of Finance, and SEC (Securities Exchange Commission) attempted to support TFEs. Many regulations were designed to facilitate and promote the operations of TFEs (Mr. Siripongsepaiboon, 1997; Mr. Auakamolsukho, 1997). However, there were several major problems pertinent to the regulations. Some rules were rather obsolete and not practical in a dynamically changing industry, such as the financial industry. The rules could not keep abreast of the environmental changes in the industry (Mr. Auakamolsukho, 1997).

With regard to ***human resources*** in the financial industry at that time, it was considered to be adequate in terms of quantity. Nevertheless, there was a dearth of skilled financial professionals, particularly experienced analysts, researchers, and marketing officers. There were in short supply due to the prosperity of the financial industry at that time (Mr. Phansuwan, 1997; Mr. Siripongsepaiboon).

With regard to various industries related to the financial industry, the commercial bank industry also enjoyed the high liquidity in the financial markets at that time. Commercial banks managed their excess liquidity by raising foreign assets holding and reducing both deposit and lending rates. Thus, the deposit and lending rates were adjusted downward throughout the year (Bank of Thailand, 1993).

The construction industry expanded significantly, reflecting the strong demand for property and increases in the productive capacity of existing equipment. Public construction activities increased markedly, owing to the prevailing needs for the government to invest more in infrastructure development projects. (Bank of Thailand, 1993). The manufacturing industry during the same period grew by 10%, a rate close to last year's. Strong output growth sectors were vehicles and transportation equipment, construction materials, petroleum products, and beverages. In particular, the exported-oriented industries recorded a significant growth (Bangkok Bank, 1993). In addition, trading activities were performing well, particularly international trade. Exports expanded at a satisfactory rate of 16%, higher than in the previous year. Yet, with exports expanding less than imports, the trade deficits increased to Bt 242 billion, equivalent to 8.2% of GDP (Bangkok Bank, 1993).

Regarding the competitive situation in the industry, Mr. Auakamolsukho (1997) revealed that at that time the financial industry was intensely competitive due to a number of TFEs participating in the market. In addition, the size of the market was limited as the majority of clients were local customers, especially retailers. This forced TFEs to set up their distribution networks throughout the country (Mr. Phansuwan, 1997). Also, the high competition in the industry also resulted from many foreign brokers wishing to penetrate the Thai capital market. Thus, there was an effort to increase the proportion of foreign clients and boost demand in the market so as to ease the pressure from increased participants (Mr. Siripongsepaiboon, 1997)

In brief, from all dimensions of the financial industry at the alliance development time, the researcher could summarise that the industry was attractive to foreign companies due to the current prosperity in the market demand and the long-term satisfactory growth rate though there were uncertainties and high competition in the market. Therefore, the null hypothesis is rejected and the alternative one is supported. That is, *Thai Financial Enterprises (TFEs) are likely to establish international co-operative arrangements with their foreign partners when at the same time they are operating in industry conditions that are attractive to potential foreign partners.*

10.5.2 Relative Competitive Position

The eleventh hypothesis pertains to "***relative competitive position***" ($H_{11}o$ as stated earlier in chapter 4), which focuses entirely upon internal conditions of the company, compared with the industry average.

Regarding the marketing function of the company, at that time, SCCF maintained its market competitiveness in line with the average of the industry. SCCF achieved its market share of 2.5%, ranked as the 21st out of 40 brokers in the SET (SET, 1993). The company also received permission from the SEC to establish three securities trading offices in Bangkok, which could increase its securities business potential. Furthermore, SCCF had enlisted five sub-brokers providing securities orders to the company, which consisted of Chao Phaya, KSIT, Chaing Mai trust, Siam City syndicate, and Dhana Nakorn (SCCF, 1994). This was considered to be an important source of securities incomes of the company (DS Securities Analysis Report, 1994).

Moreover, Mr. Phansuwan (1997) also pointed out that the company achieved greater opportunities in expanding its credit and securities business when the bank of Thailand allowed it to open five provincial credit offices and three securities trading offices this year.

This helped the company to enlarge its market and access retail customers throughout the country.

With respect to service and operational efficiency, SCCF was regarded as one of the new stars in the financial industry, which had been modernised by using high technology equipment (SET, 1994). SCCF's shrunken bureaucracy resulted in greater flexibility in management and operations, compared with other TFEs. Also, SCCF had a continuous development policy in order to achieve operational efficiency in the international level (Mr. Siripongsepaiboon, 1997).

Besides, the company proved its continued commitment by effective policies and managerial strategies suitable for economic success at that time (Money & Banking, 1994). Moreover, SCCF had just succeeded in developing itself from a small TFE to an efficient medium-sized firm and its competitive position was considered to be relatively strong among the medium-sized TFEs during that period.

However, according to industry-standard financial ratios, SCCF's profitability and efficiency remained slightly inferior to the average of the industry. SCCF's various profitability ratios, comprising net profit/total income (15.94) and net profit/total equity (20.41), were slightly lower than those of the industry (18.73% and 22.48% respectively). Nonetheless, the company's net profits after tax were relatively encouraging, totalling Bt 236.41 million in 1993, an increase of Bt 35.03 million or 17.40%. Earnings per share rose to Bt 9.09, increasing from the past two years by 209.18%.

With reference to the human resources of SCCF, Mr. Phansuwan (1997) stated that in 1993-1994 meant the period of substantial improvement of staff quality and skills. It was in the "***corporate cultural change***" period of the internationalisation process. SCCF's staff trained and improved markedly in such an environment. Also, due to the growth stage of the financial industry, the turnover rate of SCCF's staff was rather high. However, compared to the average situation of the industry, SCCF's staff problem was not as serious as other TFEs because its appealing images and entrepreneurial spirit at that time could attract newly qualified graduates to work in the company. However, the company was still in need of qualified personnel (Mr. Phansuwan, 1997).

Regarding the image and reputation of SCCF, the company's image conveyed to the public during the period of alliance establishment was very good due to the strong back up from its major shareholder, Siam City Bank, as well as a performance in which income and profitability grew at a satisfactory rate (Mr. Phansuwan, 1997; Mr. Siripongsepaiboon, 1997)

However, regarding financial status, SCCF's **equity ratio** at the end of 1993 (9.92) was inferior to that of the industrial average (8.81). Besides, the company's **contingencies to marketable assets ratio** and **total loans to total public borrowing ratio** were 0.35 and 1.34 respectively, which were also higher than those of the industrial average (0.28 and 1.32 respectively). This could show that the financial stability of SCCF was slightly weaker than the average of the industry.

Regarding its price and cost competitiveness, Mr. Auakamolsukho (1997) asserted that the company enjoyed a relatively low cost of capital as Siam City Bank furnished a strong capital base for the company. In addition, due to public confidence in the company, this helped provide its borrowings via promissory notes with a low interest rate, when compared with the other TFEs'. Furthermore, SCCF planned to finance more from financial institutions and foreign markets instead of from public borrowing in order to consolidate upon financial stability and alleviate the cost of capital.

The funding policy of the company insisted that SCCF also raised funds overseas in order to reduce its cost of capital as there was a gradual relaxation of financial rules which encouraged international funds mobilisation (SCCF, 1994). However, during that period, the company still emphasised fund mobilisation by borrowings from the public (81.36%), compared with the industrial average (75.67%). This might increase financial costs and reduce financial flexibility in operations.

In conclusion, SCCF was considered one of the efficient medium-sized financial companies in the Thai financial industry. As assessed by Money & Banking Magazine (1994) for **Finance of The Year 1993 forum**, SCCF is ranked as the 19th finance & securities company out of the 69 TFEs. In this respect, SCCF was one of the competitively strong medium-sized TFEs in the Thai financial industry. Its competitive position should be above the average of the industry due to its past performance. Also, the reputation and image of SCCF was promising, resulting from its respectable major shareholders although there were some weaknesses associated with funding and efficiency because SCCF was still regarded as a newly revitalised firm. Therefore, the null hypothesis is rejected and the alternative one is supported. *That is, when Thai Financial Enterprises (TFEs) develop international strategic alliances, they have relatively strong competitive positions, compared with other rivals in the financial industry.*

Concerning the strategic thoughts of SCCF itself, Mr. K. Phansuwan, managing director, shed light on the issue of why SCCF chose to establish the alliance during the second quarter of 1994 as follows:

"We reckoned that it had reached the time when we had to do something to modernise and internationalise our organisation. At that time, the various economic environmental conditions in Thailand were very dynamic, particularly in this industry. We all realised that, very soon, the globalisation ripple effects from foreign countries would come into Thailand and threaten all TFEs in the industry. We could not afford to wait until the turbulent situation arrived and deprived our firm of its prosperity. However, we were not in a hurry to do so as SCCF had considered and been in contact with its prospective partner, CLSA, for almost half a year before deciding to ally itself with the firm. In this respect, SCCF still realised that the company could achieve great immediate benefits in terms of securities order transfer and investment banking activities due to the bullish financial markets and industry at that time. Meanwhile, as the situations in the Thai financial industry and of SCCF itself were able to offer substantial advantages to CLSA, we could ask for more help and contributions of the firm in return in terms of skills, technology, and other strategic resources transfer." ***(Interview with Mr. Phansuwan, March 3, 1997)***

Also, Mr. S. Siripongsepiboon (1997), deputy managing director, offered additional ideas regarding the timing of the alliance. Indeed, SCCF could not absolutely chose the alliance timing by itself. At that time, both firms, SCCF and CLSA, had discussed and agreed with each other's ideas that it had reached the appropriate time for developing our alliance co-operation. CLSA figured that at that time it could achieve both huge immediate returns in the forms of commissions, fees, and investment gains from the co-operation. At the same time, it could gain a solid business base in Thailand to obtain its advantages in the long-term. On the other hand, SCCF considered that it was able to have great advantages from the co-operation in terms of expanded client and revenue base in the securities business. The company also received CLSA's contributions with respect to research database, techniques, and capable analysts to help magnify SCCF's research competence to cope with the demands of customers. Besides, another important reason was that CLSA was eager to have SCCF as a strategic partner at that time. This was due to the prosperity of the Thai financial industry and Thai economy as a whole, together with the strong competitiveness of SCCF itself. SCCF reckoned that if the firm established the alliance at that time, it could gain a better bargaining position and ask for satisfactory terms of contract.

10.6 Results of Strategic Co-operation

In general, the overall performance of international co-operation with CLSA was very successful. CLSA could meet all the requirements determined in the contract for allowing the firm to take an equity participation in SCCF. In this respect, SCCF's partner, CLSA, completely fulfilled this requirement through its various contributions, including securities volumes, skills and expertise transfer, and research achievement. In particular, with regard to securities volume transfer, CLSA transferred foreign trading volumes to SCCF approximately 32% of the latter's total trading volumes, which nearly doubled the minimum requirement set at the outset of the co-operation. This demonstrated its international marketing abilities and proved its strong intention to collaborate exclusively with SCCF (Mr. Phansuwan, 1997; Mr. Siripongsepaiboon, 1997; and Mr. Auakamolsukho, 1997).

Moreover, CLSA had always shown its commitment to the Thai financial industry. From its historical performance, the Thai financial market was the second most profitable market for CLSA. This meant that CLSA had considerably developed from the growth of the Thai market and prioritised Thailand as the second most important market, while the most important market of the company is Hong Kong, its headquarters (Mr. Siripongsepaiboon, 1997).

However, there was not an equity alliance or a joint venture established by the two partners. This was due to the following reasons. Firstly, this resulted from SCCF's prevarication with respect to splitting up its finance and securities business in order to comply with SEC's regulations. In addition, as long as SCCF had not completely separated its two businesses, CLSA could not hold ownership in the securities business of the company (Mr. Auakamolsukho, 1997). As a matter of fact, SCCF planned to set up a separate entity, jointly owned by SCCF and CLSA, responsible only for securities business. Regarding the plan, SCCF expected to finish the separation of its finance and securities businesses by June 1997 and established another securities company, partly owned by CLSA. Yet, as the economic conditions in the financial industry of Thailand and other countries in the Asia-Pacific region had drastically changed, both partners decided to postpone their joint investment in a new securities company in Thailand until more suspicious signs of economic recovery in Thailand and in this region materialised (Mr. Auakamolsukho, 1997).

The future development of such an alliance would be centred around "**keeping the co-operation going in an harmonious and sincere way**". In reality, SCCF believed that its cross-border alliance had been going on the right track and within the appropriate framework. Clearly, the international relationship of SCCF was relatively more robust than those of other TFEs as it could be continued in the long-term and was based upon mutual commitment. Furthermore, there would be an equity alliance to replace the past contractual agreement, which resulted in more cohesive collaboration.

10.7 Strategic Viewpoints and Perspectives of Credit Lyonnais Securities Asia:

Credit Lyonnais Securities Asia (CLSA) is the major member of the CL group, responsible for equity brokerage and research, corporate finance, equity derivatives distribution and direct investment. CLSA's extensive network grew out of a single joint venture in Hong Kong in 1987 and has expanded to all the major markets (CLSA, 1997).

In 1994, the company established a productive alliance co-operation with a Thai finance and securities company, SCCF. The strategic alliance was based upon mutual benefits, commitment, and contributions. SCCF helped CLSA in terms of local contacts, information, and securities licenses. In return, CLSA provided the ability to make contact with an international client base as well as other operational skills which were up to the international standard, particularly research and investment banking expertise.

There were several strategic motives in CLSA's mind when establishing the alliance with SCCF. First, CLSA needed to have a local partner which it was able to work very closely with in terms of processing and executing securities orders, jointly handling corporate finance deals, and co-operating in new areas of securities businesses which would be happening in the Thai financial industry. Besides, CLSA expected to receive assistance with respect to the introduction to Thai business environment, Thai business customs and styles, as well as connections with local corporate clients. To summarise, CLSA's alliance was stimulated by the motives that were aimed at overcoming regulation barriers, diversifying its market in Thailand as well as gradually developing its business understanding in the country.

As the motives of the alliance were stated clearly above, the eligible local partner of CLSA, then, must possess the key qualifications as follows: First, CLSA was acutely concerned with the **professional managerial style** of its partner. Thus, CLSA was inclined to ally itself with a TFE primarily owned by a large and stable commercial bank. Besides, the local partner had to be professional and run by a group of capable executives. CLSA figured that there were many TFEs dominated by some groups of family, of which the management style would be dramatically different from CLSA. This might cause many problems in co-operation. Secondly, CLSA preferred a company that was not too large as the very top or large TFEs were likely to prefer collaboration with the top global or regional securities houses, rather than the middle-sized firms like CLSA. The company's managing director clearly stated that:

"Of course, everyone wanted to ally itself with the biggest companies but we quite possibly would not get an appointment with these firms. We did stress different approach in finding the local partner from many people. Actually, we wanted to equally negotiate with our partner about the reasonable commission rates in executing the orders and the fees of other kinds of financial services. Thus, we preferred the middle-sized local partner. This would make us work closer and get along better in the long term with our partner. This was because CLSA wanted to be considered a major portion of our partner's business. Both partners would realise the importance of each other and pay close attention to further develop such an alliance together." ***(Interview with Mr. Douglas, 1997)***

In this respect, SCCF has the Siam City Bank as its major shareholder. This guarantees the stability of the company. At that time, CLSA also discovered that SCCF had a professional management team who had shown impressive performance. Moreover, SCCF's size was considered to be compatible with CLSA as SCCF was a medium-sized firm in the Thai financial industry. Meanwhile, SCCF was also looking for a foreign partner. Fortunately, a member of CLSA's staff was a friend of one of SCCF's shareholders. As a result, the staff matched the needs of both firms by introducing SCCF to CLSA. This seemed to be the genesis of the relationship between CLSA and SCCF. In this respect, CLSA emphasised criteria associated with "***strategic fit and compatibility***" between two firms in order to stabilise the co-operation and achieve its long-term objectives.

Regarding the timing of the alliance establishment, Mr. Douglas stated that the Thai financial industry was growing substantially. Besides, CLSA itself was competitively strong and attractive to many finance houses in the Asian region. These prosperous conditions in the industry helped the company to greatly gain market opportunities in terms of greater capital gains and commission incomes from securities operations. Moreover, CLSA could approach a number of Thai corporations that wished to mobilise funds overseas via the connections of SCCF. The Thai institutional client base could be gradually developed for CLSA's future expansion. Meanwhile, CLSA was also in strong position that could attract many eligible TFEs to become its partner.

According to CLSA's perspectives, its alliance with SCCF is one of the most successful cross-border relationships in the Thai financial industry. Mr. Douglas Clayton noted that:

*"Both partners had been together for about three years and they had got along with each other very well. In particular, the relationship between the top management of both firms was highly satisfactory. This was not a one-sided relationship as both sides could equally benefit from one another. It was very impressive." **(Interview with Mr. Douglas, 1997)***

So far, CLSA and SCCF had confronted only a few problems due to some fundamental differences between the two parties, for example differences in securities execution methods, marketing and sales approach, styles of research writing and summary, and some emotional clashes. However, none of the problems were serious and have never caused disruption in the co-operation. This was due to the strong mutual commitment and basic empathy between the partners.

CLSA and SCCF expressed their strong intention to establish a joint venture in the year 1997. However, as most of the financial economic conditions in many Asian emerging countries, especially Thailand, had changed dramatically, both partners agreed to delay their investment plan until the overall picture became clearer.

10.8 Conclusions

The international strategic alliance between SCCF (Siam City Credit Finance Public Company Limited) and CLSA (Credit Lyonais Securities Asia Limited) was officially started on May 16, 1994; the day of their agreement contract was signed. Both partners knew each other by the recommendation from a staff member in CLSA who had business connections with SCCF's shareholders. The major areas of the co-operation involved brokerage collaboration, research collaboration, corporate finance collaboration and new skill development co-operation.

The formation process of cross-border alliance stemmed from the strategic thoughts and visions of SCCF's top executives, together with the dynamically changing economic condition affecting the Thai financial industry. Like the motives of western countries' alliances, the SCCF's alliance was aimed at **defending the company's market position**. It means that the co-operation was arranged in order to help the company to cope with business uncertainties, **both competitive and demand uncertainties** due to the uncertain economic environments. Besides, SCCF's alliance was significantly stimulated by both **market-offensive** and **resource-offensive motives**. The company needed to gain long-term improvement, in the forms of research skill enhancement, technology advancement, and service ability development so as to expand its market boundary in the future. Also, the company still focused heavily on direct and immediate benefits to be gained from the various resources and contributions of foreign partners, in terms of increased commission fees, information and international marketing networks. These were essential elements of SCCF's alliance motives.

As a consequence, the attributes of SCCF's prospective foreign partner had to be consistent with the objectives and motives of the alliance, which heavily emphasised the longevity and stability in co-operation. Therefore, the company paid most attention to "strategic fit and compatibility between partners" as this resulted in the long-term smooth co-operation and both partners could help each other to ease and tackle the future economic instabilities. In addition, SCCF employed the criterion associated with "complementary skills and competencies" when seeking its foreign partner. The company remained in great need of the partner who possessed more advanced competencies, complementary to those of SCCF, in order to create a synergy from the co-operation. These all sound similar to western countries' alliance criteria. However, SCCF was not concerned with the criteria associated with the "purely cultural aspect or individual attributes of its foreign partner" as the company believed that it had been prepared for the differences and viewed the differences as challenges.

In other words, SCCF's strategic thoughts behind choosing to establish the alliance at this time involved primarily "a timely preparation to respond to the external threats". The company wished to instantly improve itself from the alliance so as to efficiently cope with the future difficulties and impending instabilities. Meanwhile, the company needed to seize market opportunities and achieve immediate benefits from the alliance timing as at that time a vast number of foreign investors were interested in investing in the Thai financial markets, which were very prosperous. Besides, due to the healthy Thai financial economic conditions and SCCF's strong competitiveness in the financial industry, the company was able to negotiate for greater co-operative benefits and favourable terms of contract, in terms of various resources and contributions of the foreign partner such as marketing channels and research information. In order to respond directly to the strategic thoughts behind the alliances timing, *the company chose to develop the alliance when the Thai financial industry was internationally attractive and its relative competitiveness was strong.* The summary of the firm' s international alliance is shown in table 10.2.

Further, the overall performance of the international co-operation with CLSA had been successful as all its alliance objectives had been achieved and CLSA met all the requirements in the contract. However, there had not been a joint venture between SCCF and CLSA because there were unclear and unstable economic conditions in Thailand and many countries in the Asian region.

Table 10.2 summary of international alliance of SCCF

Name of foreign partner	Credit Lyonnais Securities Asia
Duration of co-operation	5 years
Type of co-operation	Non-equity co-operative agreement
Areas of co-operation	Brokerage collaboration, research collaboration, corporate finance collaboration, and new skill development collaboration
Motives of co-operation	
- Market-defensive motives (competitive uncertainties)	- Important
- Market-defensive motives (demand uncertainties)	- Important
- Resource-defensive motives	- Important
- Market-offensive motives	- Important
- Resource-offensive motives	- Important
Criteria of co-operation	
- Strategic fit and balance	- Important
- Synergy and complementary competencies	- Important
- Compatible operational cultures	- Important
- Differences in individual attributes	- Not important
Timing of co-operation	
- Industry attractiveness to foreign partner	- Attractive
- Relative competitive position	- Relatively strong

To summarise, The international strategic alliances of SCCF were critically discussed and described in detail due to the elaborate process of case study research. The strategic reasons behind choosing international alliances over mergers and acquisition as well as internal growth strategy have been presented in this chapter. A complete range of ideas and perspectives associated with international alliance formation of the company was revealed. Intriguing examples were also raised in order to give readers clear evidence and better understandings. The new concepts of cross-border co-operation between TFEs and their foreign partners were introduced here. The implicit desires of SCCF to establish an equity-linked relationship with foreign partners have been presented although it is somewhat against the guidelines of the SEC (Securities and Exchange Commission). The content in the alliance contract which allowed its foreign partner to exercise a "call option" so as to purchase a stake in the company was elicited by the case study research. Further, the sensitive issues critical to the firm's operations could also be disclosed by in-dept interviews with key executives. This is because all the concepts came from the brainstorming process of the executives. The interesting logic of "competitive imbalance" in the Thai financial markets, which led to the establishment of the SCCF's international alliance, was also discovered. Many relevant situations influencing real alliance motives of the company were also raised to shed light on the formation process of the international alliance.

The foreign partner seeking and selection processes have also been discussed in detail in this case study research. Steps in making an initial contact with CLSA were shown. The employment of SCCF executives' business connections in constructing the international relationships with CLSA were introduced. The distribution of alliance proposals to the foreign partner reflected aggressive strategic patterns of the company. Also, SCCF's use of "numerical-based relationship" concept in selecting foreign partners provided another interesting example. The major qualifications and attributes of foreign partners focused by the company have been explained and prioritised to make the selection process clearer and more practical. Moreover, a variety of evidence was also employed in the case study research. For example, managerial reports, archival records, annual reports and relevant analysis reports, together with opinions of the executives, have been used to analyse the signals of alliance timing. All the facts from the analysis, including bargaining power factors, have been taken into account for thorough consideration. Further, the performance and influencing factors of this cross-border co-operation were also discussed in the case study. This offers a complete picture of the issues and future directions for further research, such as managerial and control issues in alliances as well as key success factors of the international co-operation.

Regarding theoretical perspectives, the international alliance between SCCF and CLSA can be analysed as follows. With reference to **transaction cost analysis**, the marriage between the two firms existed in order to ensure efficiency and satisfactory co-operative results. Both partners could access and utilise each other's competencies and assets with lower costs. CLSA's global networks, marketing distribution channels, and international research database were provided in the alliance. Meanwhile, SCCF's local business connections, database, and marketing networks were accessible by its foreign partner. The optimum cross-border utilisation of these resources and facilities resulted in economies of scales and lower overall operational costs. Further, the international alliance significantly reduced transaction costs in foreign securities trading, which arose from "the competitive imbalance" of the financial market. Most of the foreign securities trading transactions must pay double fees resulting from double placing orders to a foreign broker and then a TFE. In this case, the cross-border alliance between CLSA and SCCF eliminated the redundant steps and reduce the transaction costs approximately by half. This resulted in higher margins from cross-border securities trading of the alliance.

Opportunistic behaviours and conflicts of interest between foreign partners could also be reduced in the long-term. This was due to the requirements for exercising equity ownership in the alliance, which were determined in the alliance contract. The requirements were expected to ensure mutual benefits to both partners which would lead to stable relationships and decreased transaction costs. In this respect, the foreign partner, CLSA, could exercise its rights to hold a stake in SCCF at the specified price and in the agreed proportion. The price was lower than the normal market price. This significantly reduced CLSA's costs of arranging the equity alliance and of entering the Thai financial market.

Regarding **resource-based perspectives**, first, *in the preservation stage*, SCCF and CLSA realised their cross-border dependency on each other's resources. SCCF needed international resources in terms of marketing expertise, regional networks, research skills, and international reputation. CLSA required contributions from SCCF in terms of local connections and business base, distribution networks, and a complete range of securities licenses. Second, *in the absorption stage*, the transference of the resources was focussed. SCCF obtained a significant amount of benefits from foreign securities client bases transferred across border. The larger brokerage volume resulted in greater revenue inflows, bigger market shares in the financial market, and more exposure to international markets. Also, advanced and professional skill transfer, particularly research expertise, was demanded in the alliance. CLSA sent researchers to work with and train SCCF's analysts at the joint research department in Thailand. Moreover, SCCF's staff were also permitted to join training programmes at CLSA's head office in Hong Kong. On the other hand, CLSA also benefited from integrated margin of the foreign brokerage transfer as well as the local business facilities of its foreign partner. The business facilities were used to execute various financial deals and transactions as well as to prepare joint research reports of both the partners. Furthermore, CLSA could access local institutional client bases in order to arrange cross-border financial projects such as off-shore loan syndication and underwriting.

Third, *in the symbiosis stage*, both firms were encouraged to integrate their strategic resources and create new sources of international competitive advantage. In this respect, the joint research unit established by contributions from both partners possessed unique strengths in terms of accurate local and international databases. The research reports produced by the unit were expected to become a major "product" to offer to domestic and foreign investors. Furthermore, the closer collaboration, in the form of equity alliances that would exist when CLSA exercised its "call" option, helped discard inefficient routines and combined the cross border resources of each partner. This was expected to result in long-term international competitiveness.

Regarding **the eclectic paradigm of international production,** the firms endeavoured to engage in international activities in order to exploit their advantages more efficiently. In this respect, SCCF's O advantages included capable high-ranking executives who had been working with reputable foreign brokers and experiencing international styles of management and operations. They also possessed a clear vision on the future of their firms and the financial industry. Further, the firm had a sound financial background and a strong financial support from its shareholder, Siam City Bank. Moreover, the company had a past impressive performance and was regarded as a new star in the financial industry. All of these were expected to be a launching base for the firm to expand its business abroad. Regarding CLSA's O advantages, the firm was an international financial house which was a member of Credit Lyonnais Group, a large global financial institution. CLSA then possessed global marketing networks, international reputation, and strong support from CL group. In addition, the firm had a wide range of competencies and skills associated with international financial services. Both firms, SCCF and CLSA, had to find the proper way to internalise their advantages and enter foreign markets (I advantages). SCCF remained in need of help from foreign firms to enter foreign markets and wished to be more exposed to the international environment. A take over or a merger with a foreign broker was not suitable for SCCF as the firm was still inferior to foreign firms in terms of technology and skills. This was also against the policy of its shareholder. Likewise, setting up a foreign subsidiary by itself seemed to be impossible for the firm at this stage as it required a great deal of capital investment. Thus, SCCF paid attention to a permanent cross-border partnership with a foreign firm. On the other hand, CLSA also needed to find a partner to help facilitate its operations in the financial industry. The firm expected to receive assistance in terms of local contacts and connections, client base, securities licenses, and knowledge in the Thai business environment. Thus, the most efficient way here was to ally itself with a local firm possessing these competencies. In this case, Thailand, particularly the Thai financial industry, was chosen due to its high growth potential among various Asian emerging economies (L advantages). The industry was in the growth and transition period, which offered huge business opportunities to participants. The Thai financial markets were growing considerably, which provided huge capital gains and commission incomes from securities operations. In addition, the partner firms would greatly benefit from an expansion of Thai enterprises that wished to raise funds abroad.

The next, eleventh, chapter is centred on the international strategic alliances of Dynamic Eastern Finance Thailand (1991) Public Company Limited, a small Thai financial enterprise. Various interesting viewpoints related to such an issue are discussed in the chapter.

Chapter 11
Case Study III: International Strategic Alliance Formation of Dynamic Eastern Finance Thailand (1991) Public Company Limited

11.1 Introduction

This chapter starts with the introduction and background of the international alliance between DEFT and Crosby, followed by the key issues surrounding the alliance formation. The strategic motives, criteria, and timing of alliance development of DEFT are the major context of the case study. All the hypotheses involved are analysed and addressed by the information elicited. The performances of the alliance are subsequently summarised in order to demonstrate the practical co-operative results. Also, the viewpoints of the foreign partner, Crosby, are concisely exhibited in the last part so as to elucidate the ideas of foreigners to the alliance co-operation.

The interviews were arranged as shown in table 11.1. Furthermore, I have received full co-operation from Mr. Vanus Paothong, assistant manager, Investment Banking Department, as he was assigned as my co-ordinator for information searching.

Table 11.1 Names of Informants of DEFT Public Company Limited

No.	Names	Positions	Date of Interview
1	Mr. V. Tantiwanich	Former Managing Director	April 12, 1996
2	Mr. S. Boonbanjerdsri	Present Managing Director	March 13, 1997
3	Mr. S. Koahchan	Vice President of Research Department	March 19, 1997
4	Dr. N. Pongspaibool	Executive Vice President	March 28, 1997
5	Mr. C. Sripunporn	Managing Director of Socgen-Crosby (Thailand)	April 24, 1997

11.2 Background of International Strategic Alliance of DEFT

The international strategic alliance between Dynamic Eastern Finance Thailand (1991) (DEFT) and Crosby Securities Asia was established on 1 May 1995 (SET (b), 1995). In reality, DEFT preferred strategic alliances to merger & acquisition and internal growth strategies. This was because DEFT was not in a position to acquire other foreign firms as the company was still rather weak and small. The company had to request contributions from foreign firms instead of taking over them (Mr. Tantiwanich, 1996). Further, internal growth strategies also seemed to be too time and resource consuming for DEFT. As the company was in the stage of rejuvenation and development, plenty of needed resources had to be obtained in a short period of time. The company could not afford to quickly build up its own resources (Mr. Tantiwanich, 1996; Dr. Pongspaiboon, 1997). Therefore, strategic alliances with foreign partner seemed to be the most suitable way of DEFT at that time.

11.2.1 The Areas of Co-operation

- **Corporate finance co-operation:** DEFT and Crosby co-operated in arranging huge international corporate finance deals, such as mergers and acquisitions, underwriting and sponsoring, financial restructuring, and syndication loan projects. In general, both firms were expected to contribute to each other. Crosby was responsible for all activities pertinent to foreign markets and committed itself to provide advice, information, and techniques with respect to sophisticated financial cases. The company also participated in marketing and selling processes as well as the evaluation of market potential for expanding corporate finance services in the Asian region. Besides, Crosby was in charge of contacting and advising foreign clients who wished to invest in Thailand. In general, DEFT and Crosby worked as a joint team responsible for local and foreign tranche respectively.
- **Research co-operation:** The research co-operation was centred on transferring analytical techniques associated with internationally accepted research report preparation. Crosby was obliged to provide DEFT with the advanced procedures and techniques necessary for developing research papers in Thai and international capital markets. This also included research information and Crosby's database to facilitate the operations of DEFT's research and analysis department. Besides, all research reports

distributed worldwide were also sent to DEFT regularly in order to serve as precedents for DEFT's future research and recommendations to clients.

- **Brokerage co-operation:** Crosby agreed to send the majority of its foreign securities selling and buying orders to DEFT. DEFT was responsible for domestic execution and clerical activities. In this respect, the company had to provide Crosby with a rebate of 0.2 % of the total amount of securities orders transferred. On average, Crosby transferred to DEFT its foreign securities orders of 25% of DEFT's total value of securities trading. This co-operation was considered to be the crucial co-operation as it could offer DEFT huge immediate benefits.

11.3 Strategic Motives and Underlying Needs of DEFT

The first aspect of alliance motive is related to market-defensive approach. Initially, the ***market-defensive motives in respect of dealing with competitive uncertainties*** (H_1o as stated earlier in chapter 4) is examined.

Mr. Tantiwanich (1996) alluded to the economic situations in the Thai financial market industry in 1995. One of the forces conducive to the international alliance between DEFT and Crosby was the economic situation in the Securities Exchange of Thailand (SET). At that period, foreign institutional clients seemed to have preponderant influence on the trading transactions in the stock market. The Thai financial markets seemed to depend heavily upon foreign customers. Therefore, a number of TFEs struggled to compete for foreign transactions through offering better commissions and rebates. The company believed that a long-term relationship with a foreign broker was necessary to ascertain the level of the securities trading volume from foreign investors (Dr. Pongspaiboon, 1997).

Likewise, as it had undergone much upheaval, the company needed quickly to rejuvenate to increase competitiveness in order to cope with the dynamic changes and intense competition in the industry. In pursuit of these goals, any rash causes of action were taken despite being imprudent. For instance, loans from finance department were usually hastily approved to finance security trading in security department. This action was taken in order to boost the volume trade and commission fees (Mr. Tantiwanich, 1996). This illegal activity would erode the company's competitiveness in the long term however. Thus, it needed to stop them. However, cracking down on such vices left the company with less income. As a matter of fact, most small and medium-sized TFEs were struggling even with the illegal activities. Thus, these companies attempted to find alternative sources of revenues by approaching more clients which caused more serious competition. Collaborating with a foreign partner helped ease the intense competition through bringing in foreign clients and increasing the overall market size. This also offset lost income and helped the company to survive the fierce competition (Mr. Tantiwanich, 1996).

Mr. Boonbanjerdsri (1997) stated that the company had to be concerned about its stability and survival, as the company was not strong enough to compete with these foreign brokers. As a matter of fact, the impact of globalisation on the Thai financial industry was considered strongest, compared with any other industry in Thailand. This was because the huge number of possible rewards to be achieved by participants attracted a number of foreign companies to participate in such an industry. As DEFT remained small in its size and not strongly competitive even in the local competition, the company could not compete with foreign firms which possessed far better advanced skills and capabilities. The company then decided to seek a strong foreign partner to help it to survive in the intense competition in the market.

From the above discussions, the null hypothesis is rejected and the alternative one is accepted. That is, *the market-defensive motives in respect of dealing with competitive uncertainties stimulate the Thai financial enterprises to establish international alliance with their foreign counterparts.*

The second hypothesis involves ***market-defensive motives in respect of dealing with demand uncertainties*** ($H_{2}o$ as stated earlier in chapter 4).

In this respect, Mr. Tantiwanich (1996) affirmed that, as stated earlier, in the imminent future, DEFT also believed that foreign investors would definitely take a principal role in the Thai financial markets as a whole. This meant that the market structure and clients' behaviour would be radically changed. Therefore, this company needed to survive in the finance industry, especially the securities business, strategic co-operation with foreign partners was badly needed to help shore up the level of incomes.

Mr. Boonbanjerdsri (1997) also confidently asserted that *"I believed that the great uncertainties resulting from investment influence and manipulation of foreign investors were easier to deal with if we had help and contributions from a foreign broker. In the future, the market structure and client needs were found to be more sophisticated and complicated as foreign institutional investors had taken dominant part in the Thai financial industry. This resulted in the changes of the whole market needs, expectations, and behaviours. The clients, especially foreign and local institutional customers that would lead the whole market, would require better services, in terms of quality, accuracy, and timeliness. The partnership with a foreign broker was a sensible way to help DEFT to meet the demand of the clients' sophisticated needs.* ***(Interview with Mr. Boonbanjerdsri, 1997)***

Due to the drastically changing situations of demand conditions in the financial industry, the pattern of the demand had to be geared toward the characters of foreign and institutional investors' needs (Dr. Pongspaibool, 1997). DEFT was small and incapable of responding adequately to the advancement of such needs which was more different and complicated than needs of the retail and local customers. Thus, the company was likely to need a foreign long-term partnership to help them handle the changed patterns of investor behaviours, geared toward international styles of financial investment.

As a consequence, regarding the above analysis, the null hypothesis is rejected and the alternative one is accepted. That is, *the market-defensive alliance motives in respect of dealing with demand uncertainties stimulate DEFT to develop the international alliance with its foreign partner.*

The third hypothesis is ***the resource-defensive motives*** ($H_{3}o$ as stated earlier in chapter 4). The motives focus on TFEs' resource dependence on their foreign partner in developing an alliance. This is aimed at acquiring resources that TFEs lack in order to stabilise their strategic situations, continue their operations, and survive in the industry.

Mr. Boonbanjerdsri (1997) stated that *"To my mind, we had to admit that the majority of TFEs themselves could not directly compete with foreign investors at that time. Apart from large and well-developed houses, most of the TFEs, including DEFT, remained in great need of significant adjustment. In particular, DEFT first wished to use the linkage with a foreign partner to provide foreign clients via its region-wide marketing arms and networks. The company needed such foreign partners' contributions and resources so as to adjust and prepare itself to handle various threats in the environment. Afterwards, it tended to gradually develop itself to be capable of foreign market penetration in the future."* ***(Interview with Mr. Boonbanjerdsri, 1997)***

Indeed, Mr Boonbanjerdsri (1997) further disclosed that although DEFT was one of the oldest finance and securities company in Thailand, it was considered a "small" firm. This was because the company had weathered several major financial crises of Thailand. These plunged DEFT into serious financial problems, which took a considerable amount of time and resources to overcome. Moreover, there had been several major changes in owners and executives, which also resulted in disruptions in rehabilitation and improvement. This required DEFT to seek help in the form of capital, credibility, and various skills from its partner to rejuvenate the company.

Dr. Pongspaibool (1997) expressed his opinions that *"as the world and Thai financial business had always changed rapidly, we could not afford to delay restructuring, correcting, and improving our competitive position. We admitted that we were in great need of immediate help in terms of various resources to survive in this situation."* ***(Interview with Dr. Pongspaibool, 1997)***

In conclusion, as DEFT remained regarded as a small and newly revamped company, it was a firm in need of help from its partner in terms of various resources so as to defence its stability and competitive position in the industry. This meant that the company desperately depended on resource of its foreign partner in developing the alliance. Therefore, the null hypothesis is rejected and the alternative one is accepted. That is, *resource-offensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

The fourth hypothesis is ***the market-offensive motives*** (H_4o as stated earlier in chapter 4). The motives involve the development and enhancement of TFEs' capabilities from their cross-border alliance in order to further expand their market scope

Mr. Tantiwanich (1996) revealed his strategic plans that the company wished to complete the cycle of both domestic and international competitiveness via deploying alliance strategies. Initially, DEFT developed an exemplary domestic equity partnership with Thai Farmer Bank, the second largest commercial bank of Thailand. The bank possessed plenty of invaluable market access and local business connections. This helped DEFT to expand its business extensively in Thailand. However, DEFT also needed to partner a foreign broker in order to strengthen and expand its securities business. Also, the company aimed to fulfil its long-term goal in becoming a regional broker. These two purposes could not be accomplished by allying itself only with a local financial institution, but through a regional or international brokerage firm.

Mr. Tantiwanich further stated that

"There were two major alternatives for the company's development, developing the company to become a niche market firm or to fight for future growth. The company chose to promote itself to grow and prosper in the domestic and international competition. This was encouraged by the prosperous Thai financial economic conditions and prospects at that time. Therefore, the company formulated a master plan for business expansion and aimed to become a regional finance house in the future. Also, the company committed itself to achieve considerable growth in the future so as to facilitate its expansion plan. An alliance with a foreign partner was one of the most important strategies leading to the final goals." ***(Interview with Mr. Tantiwanich, 1996)***

Indeed, the long-term objectives of DEFT's alliance were more than just increasing cash and income. Gradually developing themselves was also crucial. Dr. Pongspaibool (1997) stated that the alliance was aimed at establishing the company as a well-accepted and high performance finance house in both national and international realms. DEFT's operations and managerial functions were expected to be assisted by Crosby in various capacities. This promised to enable the company to enter the path of a professional company in the world market.

As it was widely believed by financial professionals that TFEs in the future had to be geared toward a research-oriented edge, most TFEs strived to improve their quality of research works. In this respect, the key success factor in penetrating the institutional client group was enhancing and developing skills with respect to research analysis. Collaborating with foreign partners was highly necessary due to its professional investment strategies, accurate research databases, and acknowledged research and analytical methods. This method aimed to help DEFT to increase its market advantages and expand its market scope to international markets in the future (Mr. Khochachun, 1997)

Therefore, all of DEFT's executives seemed to be very concerned about the long-term skill and market development of the company via deploying an alliance strategy. In particular, the research department appeared to be a centre of concern. They attempted to use the international alliance to develop its capability and credibility to further expand the market. Thus, the null hypothesis is rejected and the alternative one is accepted. That is, *the market-*

offensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.

The fifth hypothesis is ***the resource-offensive motives*** (H_5o as stated earlier in chapter 4). In this respect, TFEs focus on the utilisation of foreign partner's resources in order to further develop their scope of operations and improve overall performance when establishing the alliance.

Mr. Tantiwanich (1996) reported that DEFT established cross-border alliance with Crosby in order to obtain contributions and resources from the foreign partner, which DEFT could not receive through the partnership with TFB Bank. That is, first, the company sought helps from its partner in the field of securities business. The former local partner, TFB bank, focuses its activities on credit, not securities, business. Thus, the partnership with a pure brokerage house better matched DEFT's need. Second, the company needed to expose itself to the international business climate. Only a regional house could offer such contributions to immediately help DEFT. These two goals needed direct resource transferred from foreign partner to be achieved.

Dr. Pongspaibool (1997) also insisted that, concerning the fundamental resources and performances of DEFT, it was impossible to develop the company to become an international firm due to lack of skills, expertise, international experiences, professional staff, capital, and various resources. As a consequence, the company expected to use the alliance with a foreign partner to transfer such required resources from its partner.
Mr. Boonbanjerdsri (1997) also clearly stated that *"It was highly likely that foreign brokers wished to arrange an alliance with a Thai financial firm because they lacked local familiarity and a foothold in Thailand. Similarly, DEFT also needed familiarity and foothold in foreign countries. In this respect, the company would use its partner's international marketing arms and networks so as to improve its international activities"* ***(Interview with Mr. Boonbanjerdsri, 1997).***

In this context, DEFT also concentrated on resources transferred from its partner, which the company could not access to bolster itself economically. By establishing the alliance, the company expected to receive the transfer of resources required for developing and advancing itself in the future. Also, the partner's resources allowed the company to expose itself to to regional climate and before long to approach foreign clients by itself. All the above evidence seems to support the fifth hypothesis. Therefore, the null hypothesis is rejected and the alternative one is accepted. That is, *resource-offensive motives stimulate Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.*

11.4 How to seek and collaborate with Crosby

DEFT first met Crosby in a conference arranged in 1994. At the meeting, there were chairpersons from Crosby, DEFT, and Thai Farmers Bank (TFB) which was a major shareholder in DEFT. Indeed, Crosby had had a past relationship with the Thai Farmer Bank and wished to establish and formalise a linkage with the bank as TFB bank was considered to be one of the largest commercial banks in Thailand. The chairman of the bank introduced Crosby to DEFT and strongly recommended Crosby to establish an alliance with the company. The discussion and negotiation about the alliance between Crosby and DEFT, then, started (Mr. Tantiwanich, 1996; Mr. Boonbanjerdsri, 1997).

The sixth hypothesis involves ***criteria associated with strategic fit and compatibility*** (H_6o as stated earlier in chapter 4).

Initially, Mr. Tantiwanich (1996) offered an interesting idea associated with the criteria that the main reason why DEFT preferred Crosby to other foreign financial firms involved "***organisational compatibility***" of the foreign firm. In greater details, the company first considered the managerial styles of the prospective foreign partners. Because the company realised that the differences in managerial perspectives led to different operational methods, and eventually resulted in different and incoherent outcomes.

He further insisted that *"the missions, visions, and strategic plans of the prospective foreign partners acutely concerned DEFT in seeking a foreign partner. In order to arrange an effective long-term alliance, the strategic partner had to be strategically consistent with the company. Therefore, I believed that this consistency would affect the long-term performance and effectiveness of the cross-border alliance"* ***(Interview with Mr. Tantiwanich, 1996).***

Also, the strategic vision of Crosby and DEFT seemed to be similar as both of them figured that Asia would be the new generation's economic power. Crosby had great concentration in Asian countries, particularly south East Asian countries. Also, Crosby had committed itself to become the principal power in this region. All its strategic ideas were consistent with those of DEFT and directly benefited DEFT (Dr. Pongspaibool, 1997).

Mr. Tantiwanich, again, emphasised the importance of visions and goals that "*we regarded goals in developing an alliance of a potential partner as an important criterion. We gathered from other TFEs' alliance with foreign houses that conflicts of interest resulted from both partners' incompatible aims, both short and long term objectives.*" ***(Interview with Mr. Tantiwanich, 1996)***

Dr. Pongspaibool (1997) also figured that the long-term objectives of the prospective foreign firms had to be taken into account within foreign partner consideration. For example, many foreign houses wished only to earn immediate cash inflows from their investment options and to gain access to the Thai financial industry. In contrast, Thai brokers normally needed both immediate benefits from additional commission incomes and long-run advantages associated with foreign client bases and expertise enhancement. This contrasting goal always led to alliance conflicts and eventual termination.

Besides, unwavering intention of the foreign firm to become our strategic partner was also of great concern. As DEFT needed a stable relationship with its partner, the company had to seek the foreign partner who was enthusiastic and eager to link up with it. Moreover, the determination of the partner to participate in the company's activities was also taken into account. This was because DEFT aimed to deepen its relationship to become an equity alliance in the future (Mr. Boonbanjerdsri, 1997). Moreover, the problems about bargaining power and conflict of interests between DEFT and Crosby seemed to evaporate. This was because Crosby highly respected a major shareholder of DEFT, Thai Farmer Bank, and needed to have a satisfactory relationship with the bank (Mr. Boonbanjerdsri, 1997).

All DEFT's executives realise the importance of criteria associated with strategic fit and compatibility. Actually, even though DEFT seemed to accept most of the advanced managerial systems and perspectives of its foreign partner due to the supposed superiority of the foreign partner, there remained a significant concern about the negative consequences issuing from the vast differences in various strategic aspects between two firms. Consequently, the null hypothesis is rejected and the alternative one is accepted. That is, *the fit and balance of strategic intent composed of long-term objectives, major strategies, and* *managerial systems are of significant concern to Thai Financial Enterprises (TFEs) in the foreign partner selection.*

The seventh hypothesis is strategic criteria associated with ***synergy and complementary competencies*** (H_7o as stated earlier in chapter 4).

As clearly stated in the alliance motives of the company in the foreign business expansion plan, DEFT was considered seriously lacking in terms of international marketing arms, foreign client bases, research expertise and information. Therefore, gaining these resources and competencies were regarded as the major criterion for seeking foreign partner (Mr. Tantiwanich, 1996).

Moreover, Mr Tantiwanich (1996) still insisted that Crosby already possessed competencies that DEFT had never achieved or even would receive by itself in the future. That is, Crosby was uniquely strong in the Asian region. The company's research reports were widely acceptable. Also, its marketing arms were extensive. In particular, securities and brokerage business of Crosby covered the whole Asian region and major economic cities of the world, for example Hong Kong, Colombo, Beijing, Taiwan, Bangkok, Jarkartar, Bombay, Garage, Kuala Lumpur, Manila, Sheighai, Singapore, Tokyo, London, New York, and San Francisco.

Dr. Pongspaibool (1997) also voiced similar opinions that Crosby was a high potential securities and stock brokering house in the Asian continent. The firm also was a growing business in its life cycle. The strategies of the company had been very effective as they combined a conservative with aggressive approach. This potentially made the company a contender as a global player in the future. This matched DEFT's need to develop fast by using its partner's experiences and skills.

Specifically, Dr. Pongspaibool (1997) further mentioned about the major criterion issue that;

"The outstanding feature of Crosby that sounded highly attractive to DEFT was centred on international and regional reputation. Crosby had performed excellently for more than a decade, since it was founded 13 years ago. The company possessed substantial international financial service experiences, which DEFT itself had never been involved with." ***(Interview with Dr. Pongspaibool, 1997).***

Indeed, DEFT endeavoured to seek the foreign partner who possessed advanced and sophisticated competencies that the company had never had. Besides, the company believed that such complementary competencies create synergy for both partners, in terms of short-term income and sustainable development. The major competencies consisted of international marketing networks and client bases, advanced research techniques, as well as international experiences and reputations. Therefore, the null hypothesis is rejected and the alternative one is accepted. That is, *Thai Financial Enterprises (TFEs) interested in allying themselves with foreign partners regard synergy and complementary skills as the major criteria in selecting foreign partners.*

The eighth hypothesis of selection criteria of TFEs involves ***operational cultural differences*** of the foreign partner (H_80 as stated earlier in chapter 4).

In greater detail, Mr, Tantiwanich (1996) clearly insisted that, in reality, after finishing the first stage of alliance discussion and negotiation, he discovered that Crosby also possessed a compatible operational cultures. The company seemed to have the Asian style of operations, in which all the staff respected the seniority concept and team working. Further, in Asian, operational beliefs of a top executive significantly dominated the policy planning and implementation of a whole organisation. This belief was similar to Thai business practices, including DEFT. Moreover, the firm was supposed to be familiar with a family-managed business as this was also a typical concept of Asian business customs.

Dr. Pongspaibool (1997) asserted that *"the operational atmosphere and culture in the organisation of the foreign partner was of prime concern for DEFT. Actually, we preferred a foreign partner originating from the Asian region due to cultural similarities. We believed that similarity in operational culture promoted longevity of co-operation. As the headquarters of Crosby was situated in Hong Kong, there was a minor difference in operational patterns and culture. The possibility of culture shock in the co-operation would be dramatically reduced."* ***(Interview with Dr. Pongspaibool, 1997)***

Further, the patterns of staff's operations in the company were also of vital importance in this respect. The wide dissonance between staff's operations could cause " operational culture shocks" which jeopardised financial and operational performances of the whole alliance and of both partners (Mr. Tantiwanich, 1996).

However, Mr. Boonbanjerdsri (1997) offered another interesting viewpoint that "*as a matter of fact, we could not say that we completely selected the foreign firms. The foreign firm also considered and chose us to become its partner. We had to listen to their needs and accept their decisions. This was because DEFT was only a small and newly established TFEs despite recent impressive performance. We both, Crosby and DEFT, must be compatible in terms of strong back office, reliable settlement methods, solid operational grounds. One of us was not supposed to burden the other one.*" ***(Interview with Mr. Boonbanjerdsri, 1997)***

DEFT seemed to pay significant attention to criteria associated with operational cultural differences between two partners. This was because the company believed that vast diversities in operational culture caused conflict and incompatibility between partners. Furthermore, this adversely affected the alliance's durability. Therefore, the null hypothesis is rejected and the alternative one is accepted. That is, *the operational cultural differences between Thai Financial Enterprises (TFEs) and their potential foreign partners are considered a crucial factor in establishing the TFEs' international networks.*

The ninth hypothesis associated with strategic criteria is ***individual attributes and pure cultural issues*** of a foreign partner (H_9o as stated earlier in chapter 4).

Regarding the individual attributes or pure cultural issues in foreign partner selection, Dr. Pongspaibool (1997) stated that the problems associated with cultural differences that were not related directly to operations and management should be disregarded in seeking the foreign partner. This was because they were inevitable and happened in any cases of the inter-firm relationship, particular cross-border co-operation. Thus, the company had to be flexible and learn to adapt to such differences.

Mr. Tantiwanich (1996) also affirmed that " *I stated already that we could not find two organisations that were completely the same, particularly firms from different countries. The difference was inevitable. The relevant issue, then, was how to manage the alliance in the presence of such minor diversities. In particular, if the differences did not significantly affect the performances of the whole alliance, we should pay attention to other qualifications of a foreign partner, which contributed benefits to both firms instead.*" ***(Interview with Mr. Tantiwanich, 1996)***

Furthermore, the individual characteristics of a foreign partner were not supposed to have significant influences on the durability and performances of the co-operation as such distinctions were not considered to be a serious problem. This was because, in day-to-day operations, while both firms co-operatively worked with each other, they dealt more with the operational differences. The purely cultural issue only indirectly and negligibly affected the smoothness of co-operation, and the firms could handle it (Mr. Tantiwanich, 1996).

In addition, Mr. Boonbanjerdsri (1997) admitted that there were some effects from the pure cultural differences between partners. However, the company was not much concerned with such differences when choosing a foreign partner. The company figured that the differences were able to be gradually resolved while both partners were working together.

In conclusion, DEFT's selection criteria associated with individual attributes or pure cultural issues were not significantly employed to choose its foreign partner as the company considered that the differences did not directly affect performance and stability of the alliance. As a matter of fact, the purely cultural issues, which could specifically identify and differentiate the firm from others, would have a greater influence in the case of firms from different countries, including cross-border alliances. However, DEFT was not concerned about the effects from such differences between partners. This was because the company attempted to concentrate more on the operation and managerial aspects. If the operations and managerial aspects could be compatible, the differences in pure culture between nations and firms could be overlooked. Therefore, the null hypothesis is accepted. *That is, the individual attributes of foreign partners are not regarded as major criteria in TFEs' foreign partner selection process.*

11.5 Strategic timing of Alliance with Crosby

11.5.1 Industry Attractiveness

The researcher assumes that there are two indicators that signal TFEs to establish their cross-border alliance at the appropriate time. In this respect, there are two major hypotheses pertinent to the signal of TFEs' alliance timing, industry attractiveness to foreign partners and competitive position. The tenth hypothesis is related to ***"industry attractiveness to foreign partners"*** ($H_{10}o$ as stated earlier in chapter 4).

With respect to the demand conditions, Mr Tantiwanich (1996) explained the situations in the industry at the alliance time of DEFT that the overall prospects for the industry were very bright at that time due to the high growth rate during the previous few years. In particular, the high demands of the market was a feature that attracted foreign firms to participate in the industry.

He further stressed that the demand in the Thai financial markets at that time was considered to be surging upwards. Also, the competition in the industry was intense due to the plethora of companies operating in the market. However, at that time, the demand remained sufficient for all participants to seek benefits from the markets.

Besides, during the alliance establishment period, the economy in 1994 of the global and Thai economies grew satisfactorily by 3.1 percent and 8.5 percent respectively (Bangkok Bank, 1994). In particular, the Thai economy recovered strongly at that time due to the rise in Thai exports, favourable weather for agricultural output, and the acceleration in public and private investment (Bank of Thailand, 1995).

Also, the size of capital market expanded markedly. This was epitomised by the new issues of securities in the primary market in that 1994 rose by 58 percent. In addition, the trading volume in the SET averaged baht 8,628 million daily due to the improved performance of the listed companies, the strong economic growth, and the recovery in foreign investment (SET, 1994).

However, Mr. Boonbanjerdsri (1997) stated that there was a sign of the economic uncertainty of the Thai financial industry. According to the research report of Booz-Allen, the number of Thai financial enterprises (TFEs) was not compatible with the size and stage of development of the Thai financial market, particularly the Stock Exchange of Thailand (SET). The appropriate number of TFEs should according to them be reduced by about half. Although the Booz-Allen's report worried many TFEs, the companies still enjoyed profitable activities in the industry due to the high growth rate and high liquidity in the financial market (Mr. Boonbanjerdsri, 1997).

Regarding the factor conditions, the most important factor condition of the financial industry seemed to be liquidity. At that time, the Thai financial industry seemed to enjoy high liquidity conditions. The liquidity conditions of the Thai financial markets looked satisfactory, much better than the previous few years (Mr. Boonbanjerdsri, 1997). Also, Mr. Khochachun (1997) insisted that the high liquidity in the Thai financial market at that time resulted in the prosperity of TFEs. As the market was in high liquidity, TFEs had loaned a huge amount of money to its clients and made substantial profits from both securities and credit businesses. This also prompted the company to initiate various new innovative development projects, including cross-border alliance establishment.

On the other hand, ***with respect to the human resources of the industry***, it had always been insufficient. However, at the time, the problem was less serious than five or six years earlier. This was because the industry attracted many well-educated personnel from the other industries. Also, the demand for financial professionals started to decline because the pace of industry growth was less frenetic (Mr. Boonbanjerdsri, 1997). In addition, Dr. Pongspaibool (1997) insisted that the number of personnel of the whole industry reached adequate levels but qualified staff was still in demand.

Regarding the government and public authorities, they attempted to facilitate the operations and accelerate growth in the financial industry in a bid to exploit the vast amount of benefits from the industry. There had been many supportive laws and regulations from the public authorities so as to help boost the competitiveness of TFEs (Mr. Tantiwanich, 1996). Yet, the regulations at that time were not very practical, as they could have not been developed in line with the growth of the industry. Also, the authorities always played purely regulatory roles. This made many TFEs lose opportunities in seeking advantages from the bullish financial markets (Dr. Pongspaibool, 1997).

With regard to the competition in the industry, at that time, the Thai financial industry was highly competitive, resulting from domestic and foreign fierce competitors. In particular, the SET (Stock Market of Thailand) had a number of brokers and sub-brokers that struggled for securities trading orders from clients. However, the long-term trend of the industry and market sounded promising (Mr. Tantiwanich, 1996). Likewise, Mr. Boonbanjerdsri (1997) still believed that the competition in the market would be higher in the future due to an increasing number of present and incipient participants. Nevertheless, the size of the market was likely to expand due to the impressive economic growth at the end of 1994. This resulted in the balanced picture between the competition and market demand.

Regarding the related and supporting industries, the banking industry experienced another year of strong growth relative to other sectors in the economy (Bank of Thailand, 1994). The expansion in economic activities in bank credit accelerated to 25.5 percent while deposit growth slowed to 12 percent from the 19.2 percent of the year before. Yet, the banking industry still enjoyed high liquidity and cheap sources of funds from foreign countries.

The property industry was also buoyant and grew by 8.1 percent, reflecting the strong increase in government construction activities and a boom in private constructions in the rural areas. However, there was a slow down in the construction of office and commercial buildings due to market slowdown.

The trade sector grew by 7.6 percent in line with the rise in domestic spending and international trade (Bank of Thailand, 1994). Telecommunication and transport, another industry that is a major client of the finance industry, grew approximately 8 percent in line with the general economic activities (Bank of Thailand, 1994). The manufacturing industry expanded rapidly by 11.4 percent, particularly in those sector that produced for exports such as textiles, computers, and electric products (Bank of Thailand, 1994). These industries were also the important customers of companies in the finance and securities industry.

In brief, at the time of DEFT's alliance development, the sentiment of the Thai financial market as a whole was positive as all TFEs could benefit from high revenue from various financial transactions and activities in the markets. Moreover, they enjoyed high liquidity with low interest rates, resulting from BIBF (Bangkok International Banking Facilities). This phenomenon brightened the overall conditions of the Thai financial economy as a whole and contributed to the high attractiveness to foreign institutional investors. Therefore, the null hypothesis is rejected and the alternative one is accepted. That is, *Thai Financial Enterprises (TFEs) are likely to establish international co-operative arrangements with their foreign partners when at the same time they are operating in industry conditions that are attractive to potential foreign partners.*

11.5.2 Relative Competitive Position

The eleventh hypothesis pertains to "***relative competitive position***" ($H_{11}o$ as stated earlier in chapter 4), which focuses entirely upon the internal conditions of the company, as compared with the industry average.

Regarding the marketing ability aspect, Mr. Tantiwanich (1996) revealed that the marketing function at that time of DEFT was performing well and the company's client base was rather extensive. The company's marketing position was increasingly strong as the firm's market share in the SET was growing steadily (Phatra Research Insitute, 1994). ***With respect to its market networks***, DEFT possessed an extensive local marketing network of 14 full-serviced branches situated throughout the kingdom, which gave the company greater potential than other TFEs in penetrating local markets and expanding its business in both finance and securities activities (GF, 1994).

Indeed, according to Dr. Pongspaibool (1997), the market base of DEFT was relatively weak as the majority of their clients were retail customers. These customers had been regarded as being not well educated and unstable. In addition, the investment by these clients was made on a speculative or short-run basis. Thus, the significant number of retail customers resulted in the company's unstable revenue stream.

Regarding the services and operational efficiency, yet, at that time DEFT badly needed significant infrastructure improvement and adjustment in order to cope with international competitions. Regarding global information and sophisticated skills, the company required them from the foreign partner. Nonetheless, the company had to re-capitalise itself and utilise its resources more efficiently, such as 14 branches, in order to facilitate the future expansion associated with credit and brokerage operations (Dr. Pongspaibool, 1997).

The important weakness of DEFT was that the company had emerged from the stage of restructuring and development. The company was not yet upon an adequately stable and firm footing. It still required another period of time to adjust and develop itself. There were many problematic functions in the company to be improved, for example, cost and revenue structures and order execution systems (Mr. Boonbanjerdsri, 1997).

Besides, the income structure of the company relied heavily upon securities revenues, which were highly risky and unstable (Dr.Pongspaibool, 1997). Also, the income structure had to be adjusted to comply with laws and regulations of the government authorities because some items of revenues were unacceptable and illegal. The restructuring process was also expected to slightly deteriorate the firm's total income (Mr.Tantiwanich, 1996). However, at that time the operational efficiency of the company seemed higher than the industry average. This was gauged by total income to total asset ratio (12.26%), when compared alongside those of the industry (6.29%).

With respect to the staff quality, Mr. Boonbanjerdsri (1997) stated that staff of the company, on average, was not sufficiently qualified to provide professional financial services to clients. Indeed, the company had always had a problem about quality staff, especially in the field of research, marketing, and treasury. The company was still looking for an experienced and professional officer in order to help increase the quality and efficiency of the firm's operation (Dr. Pongspaibool, 1997).

The above context was confirmed by Mr. Tantiwanich's statement (1996) that:

"DEFT was always in great need of qualified staff and financial professional as the most important resource of the financial service company was human resources. I admitted that at this time DEFT was still quite small and not attractive to capable financial professional to join the company. Thus, the company was launching the personnel recruitment programme in parallel with the company development plan. This could help ease the problem and attract needed personnel." ***(Interview with Mr. Tantiwanich,1996)***

Regarding image and reputation of the company, at that time, DEFT's image was quite fine. This resulted mainly from the strong support of the company shareholders, consisting of nation-wide recognised families. In addition, Thai Farmer Bank, also regarded as a local partner, fully supported the company's operations. This significantly contributed to financial stability and public confidence in DEFT (Mr. Tantiwanich, 1996, Mr. Boonbanjerdsri, 1997). In reality, the company seemed financially stable at that time as shown by the following financial ratios. DEFT's equity ratio (3.43) looked much better than the industry average's (15.19). Likewise, the contingencies to marketable assets ratio (0.15) of the company were also lower than the industry average's (0.29). This was because DEFT had to retain the large proportion of equity, compared to debt, which was required by the past financial rehabilitation programme. However, the company mobilised funds more from public borrowing (87.88%) than the industry average (76.97%). This possibly caused the financial instability in the structure of funding.

The group of stable and famous shareholders of the company also helped strengthen images and reputations of the company (Mr. Khochachun, 1997). In addition, the business connections and relationships of the shareholders facilitated the company's operations, particularly in the marketing aspect.

Also, the firm's public confidence and image could be raised because of its impressive performance during the last few years. The company had been regarded as a serious ailing company for nearly a decade until a significant and successful turnaround by the current shareholders' group. This also made DEFT's prospect bright and promising (Mr. Khochachun, 1997).

Nevertheless, the Phatra research report (1994) suggested that DEFT had slightly underperformed in 1994 according to various performance ratios and figures. Although the company's net interest income showed a healthy growth of 54%, the rise in the finance revenue could not offset the drop in broking revenues and smaller gains on securities trading. As ninety percent of DEFT's earnings were from stock broking, which relied on the prevailing stock market conditions, DEFT's earnings growth dramatically decreased by 25% in 1994, reflective of the SET's overall losses (Phatra Research Institute, 1994). In addition, the performances of the company seemed somewhat in line with the industry, as shown by the net profit to total income ratio (19.00%), net profit to total assets ratio (2.32), compared with those of the industry average (20.46%, 1.28%). However, the company's net profit to total equity (10.33%) was emphatically lower than that of the industry average (20.87%). This was due to the huge amount of equity to be retained as stipulated by the regulations of the financial rehabilitation programme. Furthermore, as the company had very high margin loans, which comprised 45% of total credit portfolio, the company was considered to be highly risky due to the high volatility in the stock market (GF, 1994).

With regard to price and cost competitiveness, due to help from its local ally, Thai Farmer Bank, the company's finance operations improved with cheaper funding sources. This helped reduce the company's funding costs by 50 basis points in 1994. The interest spread was also widened to 1.8 %. However, this remained lower than that of the industry average (2.1%) (Phatra Research Institute, 1994). Also, the company remained weak in its securities operations as it could not offer premium investment banking services and competitive price.

In conclusion, DEFT also seemed like an "adolescent" in the industry at the time of its alliance because the company had just been rejuvenated for two or three years prior to the alliance establishment. The company still required more development, more experience in operations and management. As a matter of fact, DEFT still needed to undertake another significant stage of development. There still were a number of problems in every area of the company's operations. Although they were not serious, these problems took time to be solved. Furthermore, the company was a relatively small firm in the industry. It could be summarised that at the time the company's competitive position was slightly weaker than that of the industry average. Therefore, the null hypothesis is supported. That is, *When Thai Financial Enterprises (TFEs) develop international strategic alliances, they do not have strong competitive positions, compared with other rivals in the financial industry.*

Concerning strategic thoughts of DEFT, Mr. Tantiwanich (1996) further underlined that, as a matter of fact, the timing of alliance development was very propitious due to its satisfactory performance at that time. Also, the future potential of the company was positive as DEFT at that time was supported by its local partner, Thai Farmer Bank. Besides, the positive economic climate in the Thai financial industry provided the company with the higher attractiveness and the better negotiating power in alliance contract. In particular, the company could ask for ***greater contributions in the forms of various resources*** such as technology transfer, information and marketing networks. In addition, due to the prosperity of the Thai financial market at that time, the company ***expected to immediately gain more market share from off-shore securities operations via the alliance***. Therefore, the company's alliance timing was suitable because of the greater alliance benefits, in terms of resources and market, to be achieved.

However, Mr. Boonbanjerdsri (1997) pointed out that

"Indeed, it seemed to be the time for DEFT's alliance development as all conditions were likely to support it. At that time, the competitive environment was increasingly tense until the company found out the solution for survival. The company had to formalise its relationship with a foreign partner at that time due to competitive forces. Otherwise, the substantial market share in the securities business would be lost as many TFEs tried to compete for the company's foreign clients. Besides, the overall situation in the industry sounded promising. This might give the company more choices in selecting the appropriate partners." ***(Interview with Mr. Boonbanjerdsri, 1997)***

Furthermore, it is believed that this timing helped the company to receive a good and eligible partner, Crosby (Mr. Boonbanjerdsri, 1997). Yet, it did not mean that DEFT decided to form the alliance due to the force from Crosby. Although DEFT was only a small TFE at that time, it was considered to have great potential and be supported by its powerful local partner, TFB bank. Together, the Thai financial environment at that time was growing dynamically and the foreign broking houses were strictly prohibited to participate in the industry. Thus, DEFT was still attractive to foreign partners. In particular, many regional brokers, like Crosby, were likely to participate in the industry. Therefore, there was the availability of foreign brokers to collaborate with. Crosby did not force the company immediately to form the co-operation. Nevertheless, the company had to accept that Crosby was a very good partner and they were lucky to collaborate with the firm (Dr. Pongspaibool, 1997).

11.6 Realised Results of Strategic Co-operation

The overall performance of the co-operation had been very satisfactory, as both partners had made significant mutual contributions. Regarding DEFT's standpoint, the company was pleased with the co-operation and contributions of Crosby. Mr. Boonbanjerdsri (1997) stated that

" DEFT had received almost all help that Crosby committed itself to the company at the outset of the co-operation. Yet, the company could not utilise and gain all expected advantages, resulting from the incapability of DEFT itself. Thus, so far, we had been pleased with sincerity and contributions of our partner. The partner, Crosby, brought us advanced know-how, technology, and research expertise. In return, we provided a local operation base to Crosby. This would be sensible for the equity mutual co-operation in the future as long as Crosby did not attempt to dominate the Thai shareholders and take the majority of control" ***(Interview with Mr. Boonbanjerdsri, 1997).***

In view of the significant role that Crosby played in the development of DEFT, the most important and relevant issue here was to maintain and develop this partnership. According to the basic logic of forming a strategic alliance, partners sought to supplement the core competencies they did not possess. There was no absolute guarantee that the co-operation would continue unabated. It was necessary for DEFT to keep itself attractive to its partner by having something new to offer Crosby in return for the partner's contribution. Moreover, obtaining an ownership and being a shareholder of the foreign partner in the company meant that more effort from Crosby would be forthcoming channeled towards collaboration. In this respect, the startling level of success in turning company into international financial company would be accomplished in the future (Dr. Pongspaibool, 1997).

11.7 Strategic Viewpoints and Perspectives of Crosby

Crosby Securities is one of the largest institutional broking businesses in the Asian region and is headquartered in Hong Kong. The company has approximately 350 staff operating in 15 offices worldwide. The Crosby research network provides comprehensive coverage of the Asian region, from Beijing in the North to Jakarta in the South, and across to Bombay and Karachi in the West.

With regard to the origin of the co-operation with DEFT, the linkage was triggered by the connections between personal relationship of shareholders and executives of the two partners. Mr. Sripunporn (1997) revealed that

"The alliance between DEFT and Crosby existed due to the strong encouragement from top executives of both firms. At that time, the executives of Crosby met the management of Thai Farmers Bank in a conference held in 1994. Crosby at that time was looking for a Thai foreign partner in order to expand its business to Thailand. Thus, we talked to the bank manager about the possibility of a formal relationship development because we had heard about the reputation of the bank. However, as the bank did not operate a brokerage business, the bank then recommended Crosby to discuss this issue with the executives of DEFT, a finance and securities company in a holding group of the bank. After the discussion and consideration, Crosby decided to establish a long-term alliance with DEFT so as to advance the business prospect of the company in Thailand" ***(Interview with Mr. Sripunporn, 1997)***

Mr. Sripunporn also clarified the major motives of Crosby in the alliance establishment that *"it is realised that local market access is crucial for multinational or foreign companies in the wave of globalisation. The easiest means to gain such access is to establish partnerships with local companies. In this respect, there were no exceptions for Crosby. By expanding its business amid a host of restrictions imposed on foreign companies, Crosby required local market access in return for its contributions. In other words, the company wanted to gain a firm foothold in the Thai market."* ***(Interview with Mr. Sripunporn, 1997)***

This meant that Crosby needed to gain local access and overcome the regulations imposed on foreign companies through the strategic relationship with a Thai partner in order to expand its market boundary. The company was not much concerned about risks and uncertainties as the alliance meant another step to earn additional incomes and further expand its market scope without any huge capital investment. In addition, he further revealed that its major implicit motive was to have an indirect relationship with Thai Farmers Bank, a major shareholder of DEFT. The company needed to get support and widen its business scope into other areas via assistance from the bank (Mr. Sripunporn, 1997).

Crosby was concerned about ***the complementary competencies of the partner*** that could offer synergy to the firm. As Crosby planned to further its business activities in Thailand, the company needed to partner a Thai firm possessing local market information and network. Actually, the company wished to learn and develop its skills with respect to Thai business styles and traditions so as eventually to continue its commercial activities in Thailand on its own. Besides, the company hoped to have a relationship with Thai Farmer Bank as the bank was considered to be one of the most powerful banks in Thailand. Crosby could benefit from the reputation and capabilities of the bank in order to strengthen its competitive and credibility in Thailand. As stated that

"We received a strong recommendation from Thai Farmers Bank to establish the long-term linkage with DEFT. After considering all qualifications of DEFT, they also matched our requirements as Crosby needed to have a Thai partner to facilitate its expansion plan in Thailand. DEFT possessed something that we did not have. That was local market connections and clients. More importantly, alloyed with financial backup from the Thai Farmer Bank (TFB), one of the most potential and thriving Thai commercial banks, DEFT was more attractive. Partnership with DEFT was anticipated to be a precursor to an indirect link with TFB. As a result, Crosby could expect to raise up its image and competitive power in operating financial businesses in Thailand." ***(Interview with Mr. Sripunporn, 1997)***

In addition, according to Mr. Sripunporn (1997), Crosby also considered that DEFT was suitable for the company due to equivalent competitive status and size. As Crosby was regarded only as a medium-sized regional broker in Asia, it may not be possible to approach the top Thai financial companies. These leading firms must have more chance to collaborate with the large regional or global brokerage firms. Thus, Crosby preferred DEFT and wished to mutually develop each other to be strong financial houses in the future.

With respect to the timing, Crosby actually preferred to establish the alliance with a Thai partner when the overall condition of the Thai financial industry was positive and promising. This was due to the greater benefits and business opportunities which the company could achieve. Mr. Sripunporn (1997) said that

"We chose to engage in the partnership with DEFT at that time because the current and future prospect of the Thai financial industry looked prosperous. If the company found a strategic partner at that time, it would help the company to gain greater benefits and marketing opportunities. This was because the Thai partner would provide better and more reliable services and local information to the company. Besides, the company was able to play a closer part in the prosperous industry as a local participant, which helped the company to be more familiar and continue benefiting from the industry. However, developing the alliance at that time also made the Thai partner more powerful in terms of negotiations. The Thai partner might demand greater benefits from the alliance such as technology transfer, database access, and higher stock price in case of an equity partnership. Yet, Crosby would like to form a non-equity alliance about 2 years prior to converting into an equity collaboration. We were not significantly concerned about the issue. We just left it for the further consideration and negotiation." ***(Interview with Mr. Sripunporn, 1997)***

Also, as Crosby wished to make itself more attractive to the Thai partner, the development of the alliance was likely to exist when the company was a bright prospect. Mr. Sripunporn (1997) conceded that even though Crosby at that time was only a newly regional broker, the company had demonstrated its promising prospect through satisfactory performances and a high growth rate. The company was recognised as one of the high potential brokerage houses in Asia, which could further its potential in the future. Holding this status, it was expected to help the company to link up with a strong and high potential Thai partner. Besides, this should help the company to have more choices in seeking the best possible terms of contract with the Thai partner.

Overall, the collaboration had produced a very satisfactory outcome. There had not been any problem in this partnership. Both Crosby and DEFT enjoyed the full support of each other. The settlement of any disagreement or argument occurred could be settled without any difficulty. This has brought prosperity to the collaboration. Therefore, the company planned to take a further step by taking stake in DEFT in the future.

11.8 Conclusions

The international strategic alliance between DEFT and Crosby was established in 1995. The areas of the co-operation involved corporate finance co-operation, research co-operation, and brokerage collaboration. The important alliance motives of the company in co-operation development were as follows. First, consistent with the alliance formation theory, the company paid significant attention to ***the resource-defensive motives***. As DEFT was a small company operating in a dynamically growing industry, the company struggled to acquire more necessary resources so as to stabilise and continue its business operations. The partnership with a wealthy foreign partner was expected to provide adequate resources for the company's survival. Second, ***the resource-offensive motives*** also significantly stimulated DEFT to establish the alliance. Likewise, many firms from developing countries wished to acquire more strategic resources from their foreign partners in order to further expand their business. In particular, DEFT, operating in the highly growing and prosperous economic climate, needed to obtain resources transferred from its foreign partner. This was because the company did not possess an adequate range of various resources to respond swiftly to its growth rate and expand its operational scope.

Third, DEFT also regarded the ***market-defensive motives*** as an important stimulant in arranging its cross-border alliance. Like many Western companies, the company needed to use the alliance as a device to tackle the competitive and demand uncertainties. In particular, the situation in the Thailand financial industry had been changing dynamically and remained greatly uncertain. In addition, DEFT was a less powerful firm in the industry. It was difficult for the company to deal with the uncertainties by itself. The company therefore partnered a foreign firm. Fourth, the company was also concerned with the ***market-offensive motives*** in alliance development. Like Western firms, DEFT attempted to ally with foreign partners in order to expand their market domestically and internationally. This was due to the prosperous and growing conditions in the Thai financial industry forced the company into more opportunistic behaviours. Though the company was not hugely powerful, it was still inspired to develop its markets.

With regard to strategic criteria for foreign partner consideration, like many firms, DEFT needed its strategic co-operation to be long lasting and stable in order to efficiently deal with business uncertainties and continuously develop itself by the contributions of foreign partner. Therefore, the company was significantly concerned about "***strategic fit and balance***" between partners and employed the issue as a major criterion for foreign partner consideration. As the company was in a highly unstable and emerging industry, it needed to stabilise its co-operation to handle all situations in the long term. Also, DEFT focused on the criterion with respect to ***"synergy and complimentary competencies"*** between partners. As the company was a newly rejuvenated firm and still seriously lacked advanced competencies, the company required a foreign partner who could contribute the stuff and jointly created synergy for both firms. This could raise up the competitiveness of both firms and make the alliance more stable. ***"Operational cultural compatibility"*** was also regarded as an important criterion as DEFT needed a smooth co-operation between partners and wished to eliminate any potential operational conflicts. In particular, the company remained in the developing process. Thus, it could not afford to adjust all of its operational cultures to be compatible with complicated and world-wide accepted procedures of the foreign partner. However, the company did not regard as significant the criteria associated with ***pure cultural differences and individual attributes of the foreign partners***. Interestingly, this was because the company realised that the differences were inevitable as it operated in the internationalised industry. Furthermore, the differences were not linked directly with the performances of the alliance. The company figured that the problems about cultural differences should not affect the performance and could be eliminated when the co-operation began.

With regard to the timing of the alliance, like other firms, DEFT seemed to prefer establishing the cross-border alliance when the financial industry looked *prosperous*. This could make it more attractive and help open wider windows of opportunities associated with market and resource transfer. However, there was something different in the DEFT's alliance formation process. That is, the company established its alliance when it did not seem to be relatively strong and powerful. This possibly caused the company inferior negotiating power in developing the alliance contract. Yet, this phenomenon could be explained that though at that time the company was not competitively strong by itself, it was strongly supported by its powerful shareholders and local ally, TFB bank. Therefore, the company also seemed to be attractive to the foreign partner who wished to gain access and close links to Thailand. The summary of the firm' s international alliance is shown in table 11.2.

Table 11.2 summary of international alliance of DEFT

Name of foreign partner	Crosby Securities
Duration of co-operation	4 years
Type of co-operation	Non-equity co-operative agreement
Areas of co-operation	Corporate finance collaboration, research collaboration, and brokerage collaboration
Motives of co-operation - Market-defensive motives (competitive uncertainties) - Market-defensive motives (demand uncertainties) - Resource-defensive motives - Market-offensive motives - Resource-offensive motives	 - Important - Important - Important - Important - Important
Criteria of co-operation - Strategic fit and balance - Synergy and complementary competencies - Compatible operational cultures - Differences in individual attributes	 - Important - Important - Important - Not important
Timing of co-operation - Industry attractiveness to foreign partner - Relative competitive position	 - Attractive - Relatively weak

So far, the performance of the co-operation had been satisfactory due to adequate contributions and mutual understandings from both partners. However, developing the alliance to become the equity co-operation remains uncertain, as there had been plenty of alterations in the industry and in both partner firms themselves.

To summarise, This case study presents unique and complex concepts of an international alliance from the perspectives of a small-sized and less powerful TFE, DEFT. The detailed processes of the formation of the cross-border alliance have been displayed. Procedures and steps in joint operations and development have been clearly explained based on varying perspectives of relevant executives and multiple sources of information in the case study research. Strategic thoughts behind the alliance establishment were revealed. Cross-border alliance motives from the viewpoints of DEFT, which were significantly concerned with uncertainties and survival, have been shown in this case. Various sensible explanations, including the firm's previous financial difficulties, were summarised as the origins of the cross-border alliance. Interestingly, the confidential issues critical to DEFT's performance are also disclosed by the case study research. Some illegal activities, which once ever provided the firm with considerable benefits, must be eliminated. Alternative sources of revenues were expected from this cross-border alliance in order to offset those illegal benefits. This was considered to be another major motive for the company's alliances and discovered by the elaborate process of the case study research.

Further, the match making roles played by DEFT' shareholders in the alliance formation process have been described in detail. The major issues of the partner seeking process were shown in the case. Co-operative synergy and strategic compatibility between DEFT and Crosby were emphasised in the partner selection process. Executives' implicit attitudes towards cultural differences in cross-border co-operation were also discussed. Furthermore, the firm's strategic thoughts and perspectives associated with its alliance timing and various signals were critically analysed and discussed. In this respect, the richness of information offered by the case study method provides insight into the company and sheds light on important logic behind the alliance timing determination. The factors related with industry, the company itself, and its shareholders were thoroughly considered to yield a clear picture and ideas of this cross-border alliance. Also, the performance and results of the collaboration are provided by the case study. Various considerations of alliance performance were discussed, including key success factors and problems in the collaboration. The need to further improve and strengthen the international relationship between the two partners was also outlined and provide guidelines for future work.

Regarding theoretical perspectives, first, the international alliance between DEFT and Crosby can be analysed by **transaction cost theory** as follows. The degree of asset specificity in this case was relatively low. Assets and competencies of both parties could be employed to facilitate cross-border collaborative activities without additional high costs. This meant that the firms engaging in foreign operations via international alliances would be more efficient than those with go-it-alone strategies. Meanwhile, the alliance could alleviate high costs arising from the inflexibility, formality, and bureaucracy of cross-border mergers and acquisitions. As the international collaboration focused on brokerage co-operation, corporate finance co-operation, and research co-operation, the facilities and competencies of DEFT and Crosby could support these activities. Cross-border securities operations could use the local and international networks of DEFT and Crosby respectively. Corporate finance deals were also able to be accomplished by the local connections and knowledge of DEFT as well as the regional reputation, network, and advanced know-how of Crosby. Likewise, research technique collaboration was completed by utilising the expertise and international database of Crosby while DEFT contributed physical facilities, local research staff, and local databases and market sentiments to the co-operation. All of these helped reduce the overall transaction costs of both parties in engaging in cross-border operations.

Regarding **resource-based perspectives**, an international alliance was created because of resource dependency between the entities of different countries. In this respect, DEFT possessed extensive local market networks, business connections and databases, and a local client base. With regard to Crosby, it had a wide range of international financial services, capable and experienced staff, a strong international reputation, research expertise, and comprehensive marketing and research networks particularly in Asia. *In the absorption stage*, the firms started to transfer and absorb each other's strategic resources through the establishment of trust, familiarity, and cohesion between the partners in the alliance. The transfer of a foreign client base in securities business was expected to help offset DEFT's income generated by illegal activities. DEFT needed to eliminate its illegal sources of income and wished to find other sources of revenue to replace them. The foreign securities orders and transactions transferred from Crosby were required in this respect. Further, DEFT was in need of Crosby's international market network and client base. This was to help DEFT gain greater market shares in foreign and institutional customers which were more stable than retail clients. This also made DEFT more familiar with international markets. Moreover, DEFT could absorb and learn sophisticated analytical and research techniques necessary for developing internationally accepted research papers. In addition, the research database of Crosby was also transferred to DEFT in order to facilitate DEFT's research department. On the other hand, Crosby obtained huge benefits from access to the nation-wide retail and wholesale client base of DEFT. Through the extensive branch networks of DEFT, retail investors could be easily accessible. Furthermore, through the business connections of DEFT's major shareholder, Thai Farmer bank, Crosby was able to access local wholesale investors, institutional clients, fund managers, and other large investment houses.

In the symbiosis stage, a closer integration of both partners' resources offered greater mutual benefits and new competitive advantages from the international co-operation. A joint team between DEFT and Crosby to arrange large-scaled and international financial deals resulted in distinctive collaborative attributes by combining the local business practices and connections of DEFT with the professional styles, advanced skills, and international experience of Crosby. Furthermore, the integration of strategic resources of Crosby and DEFT helped increase their operational efficiency, scope of operations, and competitiveness in both domestic and international financial markets, particularly in the Asian region.

With regard to **the eclectic paradigm of international production**, DEFT had "O" advantages as follows. The firm had strong support from its major shareholder, Thai Farmer bank, one of the largest commercial banks in Thailand. The business connections and networks of the firm then were extensive and its public image promising. The bank was also a capital base for DEFT. This helped strengthen the firm's financial position. Furthermore, DEFT had a distinctive advantage in terms of nationwide marketing networks as the firm possessed 14 full-service branches situated throughout the country. This helped the firm access wide client bases and specialise in retail financial services. On the other hand, Crosby's O advantages comprised international marketing skills, strong research expertise, as well as regional and global marketing and research networks. Moreover, Crosby specialised in the Asian region where the majority of its business is concentrated in the area. Thus, the firm had an international reputation and recognition, particularly in Asia, as Crosby was regarded as one of the most successful financial houses in Asia.

Next, both firms had to select the proper way to enter foreign markets (I advantages). In this respect, DEFT realised that it was only a small financial firm and remained relatively weak in the international financial industry. It was impossible for the firm to enter foreign markets alone without help and guidance from an international firm. Therefore, direct investment in foreign markets was not suitable. Likewise, DEFT was not in a position to take over or acquire other foreign firms as the firm remained small and in great need of assistance from foreign companies. Hence, the most proper way for DEFT to achieve long-term and stable benefits from foreign operations was to form an international alliance with a recognised financial house. Also, Crosby also regarded an international partnership with a TFE as an appropriate way to enter the Thai financial markets. This was because the firm wished to gain local access without high investment risks. The firms also would like to overcome the trade barriers and restrictions imposed on foreign companies in entering local markets. Further, Crosby was still a regional broker and did not have sufficient financial resources to afford huge and direct investment abroad. Hence, the fast and efficient way to gain foreign market access was to establish an international partnership. Moreover, Crosby could expect to obtain an indirect and firm relationship with Thai Farmer bank which was able to offer the firm significant business opportunities and huge potential benefits. In this case, Thailand was chosen as a launch base due to its high economic potential and long-term promising prospects (L advantages). In particular, the Thai financial industry had abundant resources and a growing client base. This was advantageous to participants in the industry. Further, as the focus of Crosby's skills, specialisation, and business base was on the Asian continent, its skill and competence transferability to Asian countries, including Thailand, was high. Moreover, Thailand was recognised as the fifth tiger of Asia and as an important financial centre of the Indo-Chinese region. The firm then could not afford to ignore Thailand if the firm needed to become a leading financial house in Asia.

The following section, the fourth section, is concerned with comparative analysis and conclusion. The twelfth chapter focuses on the comparative analysis of quantitative research, from questionnaire and interview surveys, and qualitative research from case study research. The thirteenth chapter is the summary and conclusion chapter of this research.

PART VI COMPARATIVE ANALYSIS AND CONCLUSION

CHAPTER 12
COMPARATIVE ANALYSIS OF RESULTS

12.1 Introduction

This chapter is centred on the comparative analysis of the results from the quantitative and qualitative research. First, the major findings from the survey methods, including questionnaire and interview surveys, are presented. Second, the results from the case study research are discussed. This section includes the comparative analysis of three selected case studies. Subsequently, the comparative analysis of the quantitative and qualitative research is presented. The links between the quantitative and qualitative research approach are discovered. The similarities and differences of the two approaches are also discussed.

12.2 Survey Results

The major findings from the survey results are presented as the following hypotheses.

12.2.1 the market-defensive motives in respect of dealing with competitive uncertainties

The majority of TFEs' executives paid great attention to all alliance motives associated with competitive uncertainties. To maintain their status in the market, TFEs were encouraged to adopt alliances in order to reduce competitive risks emerging from fierce domestic and global competition. TFEs also attempted to turn major rivals into friendly partners. Therefore, the market-defensive motives associated with competitive uncertainties stimulated Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.

12.2.2 the market-defensive motives in respect of dealing with demand uncertainties.

In this respect, most TFEs' executives wished to alleviate the negative impact of demand uncertainties resulting from great swings of market demand conditions and changes in customers' behaviour and purchasing patterns. Allying themselves with competent foreign partners was believed to help TFEs respond to changing customer needs. This was expected to help TFEs defend their positions in the market from such demand uncertainties. Therefore, the market-defensive motives associated with demand uncertainties stimulated Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.

12.2.3 the resource-defensive motives

The majority of respondents realised the importance of this motive. That is, TFEs remained in significant need of partner's direct contributions and resources in order to continue and stabilise their operations. This was because a number of TFEs were still small and lacking resources necessary for offering standard financial services. The immediate and stable transfer of resources from their foreign partners was expected from collaboration. Therefore, the resource-defensive motives stimulated Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.

12.2.4 the market-offensive motives

TFEs' executives wished to learn sophisticated skills, knowledge, and various competencies from their cross-border co-operation so as to further expand their market. The collaborative advantages to be gained by making international alliances in order to raise up the competitive market status and expand the scope of market, significantly stimulated TFEs' executives to develop such alliances. Therefore, the market-offensive motives stimulated Thai Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.

12.2.5 the resource-offensive motives

In this case, TFEs were demonstrating the strong intention to internationalise themselves and improve their overall performance with the resources and contributions from foreign partners. This was because TFEs remained inferior to foreign financial firms in terms of capability, technology, market networks, and customer service quality. Hence, one of the most recognised ways was to pursue such required resources and competencies via cross-borer alliances. Therefore, the resource-offensive motives significantly stimulated Thai

Financial Enterprises (TFEs) to establish international strategic networks with foreign partners.

12.2.6 the criteria associated with the fit and balance of strategic intent

The majority of TFEs' executives realised that all the strategic fit criteria were significantly taken into account when selecting eligible partners. In particular, consistency in long-term visions and objectives between partners resulted in more durable alliances and greater long-term benefits. The firms focusing on these criteria were more likely to be long-term oriented. Therefore, the fit and balance of strategic intent are of significant concern to Thai Financial Enterprises (TFEs) in their foreign partner selection.

12.2.7 the criteria associated with synergy and complementary skills of foreign partners

TFEs' executives revealed that they endeavoured to seek foreign partners possessing competencies and resources which the TFEs seriously lacked. Skills, knowledge, expertise, financial resources, reputation, and networks were attributes of these criteria. These attributes were also considered to be the alliances' immediate benefits to be obtained shortly after developing an alliance. Therefore, Thai Financial Enterprises (TFEs) interested in allying themselves with foreign partners regarded synergy and complementary skills as the major criteria in selecting foreign partners.

12.2.8 the criteria associated with consistency in operational cultural issues between partners

The operational cultural issues directly affecting operations of the firms were emphasised in this context. *Beliefs, values and attitudes towards operational issues as well as patterns of business operations* were included in this category. TFEs' executives strongly agreed that the lesser the operational cultural gap between partners, the more cohesion and effectiveness of the alliances were likely to exist. Therefore, the operational cultural differences between Thai Financial Enterprises (TFEs) and their potential foreign partners are considered a crucial factor for the establishment of the TFEs' international networks

12.2.9 the criteria associated with the individual attributes of foreign partners

In this context, the empirical results informed us that TFEs' executives did not regard the individual attributes or pure cultural issues as the major criteria. Most of the respondents did not figure that a dominant language and nationality of a foreign partner would affect their collaboration's efficiency and effectiveness. Hence, the individual attributes of foreign partners are not regarded as major criteria in TFEs' foreign partner selection process.

12.2.10 the alliance timing associated with the industry attractiveness

According to the opinions of TFEs' executives, the overall attractiveness of the Thai financial industry at the alliance development time was favourable to participants. Even though there were demand volatility and intense competitive situations existing in the industry at that time, the current and long-term prospects of the industry were promising. With reference to the situation, the Thai financial industry should be attractive to international investors when they were establishing an alliance. Thus, Thai Financial Enterprises (TFEs) are likely to establish international co-operative arrangements with their foreign partners when they are operating in industry conditions that are attractive to potential foreign partners.

12.2.11 the alliance timing associated with the relative competitive positions

Mostly, TFEs' executives agreed that their competitive positions, compared with the industry average, were relatively strong when they established international alliances. Thus, the researcher could infer that TFEs' executives tended to develop alliances when they were in satisfactory competitive positions. Also, at that time, they should not have any serious difficulties to make them inferior to their prospective foreign partners. Thus, when Thai Financial Enterprises (TFEs) develop international strategic alliances, they have relatively strong competitive positions, compared with other rivals in the financial industry.

12.3 Comparative Case Studies Analysis

This section sheds light on the analysis and conclusion of three case studies. According to the case studies, TFEs emphasised relationship on ***securities business*** with foreign partners, rather than the finance business. In general, the major areas of co-operation consisted of ***primary market or investment banking collaboration, secondary market or brokerage collaboration, and research collaboration.***

12.3.1 the market-defensive motives in respect of dealing with competitive uncertainties

According to the three case studies, two TFEs, DEFT and SCCF, which were considered to be small- and medium-sized firms in the industry, paid significant attention to these motives. The companies needed to develop their cross-border alliances so as to cope with increasingly intense competitive conditions in the industry. The external forces from foreign domination of the Thai financial industry also caused more difficult situations. The TFEs' alliances then aimed to help the firms to deal with the invasion of foreign finance firms, particularly their securities business which were more exposed to international competition. The alliance development was regarded as a device to turn a major rival into a friendly partner.

Further, the alliances were also aimed at easing a problem associated with "***intermediary concept***", where foreign clients had to pay double commission fees when investing in the Thai stock market. In this respect, some TFEs would be eliminated when regulation barriers of the Thai financial market were lifted owing to foreign competition. Moreover, by deploying cross-border alliances, SCCF and DEFT wished to maintain their market shares, especially a proportion of foreign clients in the market. The two companies were significantly concerned with the motives because they considered themselves weak, compared with foreign brokers. In particular, DEFT was a newly rejuvenated firm, which remained relatively weak. The company needed significant help from its partner in order to restructure itself and eliminate some illegal activities for future development.

However, interestingly, Phatra was not significantly concerned about ***market-defensive motives associated with competitive uncertainties,*** as the company was highly strong, and stable. The company figured that it was able to efficiently compete with its rivals and did not need to develop its alliance to defend its market scope. Although the company was slightly worried about foreign competitors, the company was confident of its capability to cope with foreign invasion of the Thai financial industry. This was due to the familiarity with the market and local connections of the company. Thus, Phatra focused more on opportunistic purposes with respect to long-term development at the regional level.

12.3.2 the market-defensive motives in respect of dealing with demand uncertainties.

The results were similar to those of the previous motives. Only two small- and medium-sized firms, DEFT and SCCF, were significantly concerned with such motives. The companies employed cross-border alliances so as to defend their market positions against demand variability and uncertainties. As the companies remained very local and could not cope with demand uncertainties, particularly resulting from foreign forces, partnerships with foreign partners were deployed to alleviate such negative impacts. In this respect, foreign manipulation and participation caused structural changes in the market as foreign clients became the majority of the customers. This highly affected the investment behaviour of the whole market. Speculative and short-term investments in financial assets started to disappear as the returns on such investment were unattractive. Long-term and more sensible investment patterns were increasingly prominent in the market. Retail investors began to fade away and they turned their attention to a wide range of mutual funds. The TFEs had to deal with wholesale markets, consisting of foreign and institutional clients, more than ever.

In addition, foreign participation caused changes in the expectations and needs of TFEs' customers as a whole. The clients demanded better services in terms of quality, accuracy, and timeliness, especially research and analysis services, which the TFEs found it difficult to deal with. The companies then must seek foreign partners to help respond to the more complicated demands, particularly in the securities business.

Nonetheless, Phatra did not pay significant attention to these motives as the company reckoned that it had developed substantially from its previous alliance with S.G. Warburg. Besides, the company had handled foreign transactions and been familiar with investment behaviours of foreign and institutional investors. Hence, the changes in the demand patterns did not much affect the company's position in the market. Moreover, the company's client structure at that time was stable. The company did not need its foreign partner to help adjust its client structure to match the trend of the Thai financial markets.

12.3.3 the resource-defensive motives

The third hypothesis, ***the resource-defensive motives***, of TFEs' alliance was also recognised as important motives by the small and medium sized companies, DEFT and SCCF. In this respect, they realised that they did not have adequate resources to continue their operational activities. In particular, they were incapable of providing clients with standard financial services, which were seriously required in the financial industry. This forced the firms to depend on various resources, such as funding, networks, and information from their partners in order to stabilise their current competitive positions. Such resources could not be built up by TFEs themselves on account of constraints associated with capital, technology, and time. Also, the permanent relationship with the foreign partner was believed to guarantee the partner's long term commitment to supply the TFEs with stable flows of needed resources. Specifically, DEFT paid great attention to these motives as the company remained in strong need of resources to restructure itself. The company had just passed the stage of rejuvenation and financial rehabilitation and still required a great deal of further improvement.

Nonetheless, Phatra did not focus on these motives as the company realised that it possessed sufficient resources to continue and stabilise its own operations. Various necessary resources had gained from its previous alliance with S.G. Warburg. Moreover, its past successful performance provided the company with abundant resources to continue its current operations. Therefore, the company's alliance was not aimed at acquiring a partner's resources so as to survive in the industry.

12.3.4 the market-offensive motives

Information from all case studies supported such motives. The companies wished to employ the alliance to advance their capability and expand their market scope, both domestic and foreign markets. The alliance strategy seemed to be an essential component of success in the industry. Overall, TFEs expected to exchange core competencies with their foreign partner so as to mutually develop each other's capabilities. Advanced technology and skill transfer were also expected from their foreign partners. This aimed to promote dramatic and continuous improvement in terms of the managerial and operational efficiency of TFEs in the long-term as well as to further expand their markets.

In particular, SCCF and Phatra expressed a strong intention to develop their business bases at the regional level via contributions of foreign partners. The partnership with a foreign partner was perceived as a "short-cut" to modernise TFEs to become regional brokers. In addition, this market offensive motive was apparently stressed by Phatra as the company emphasised long-term and sustainable development rather than the short-term benefits of securities volume transfer. The company wished to become a "*regional specialist*", via a synergy of the cross-border co-operation. Also, this was partly because Phatra was adequately competent and does not had any problems in the short-term.

12.3.5 the resource-offensive motives

The resource-offensive motives seemed to highly stimulate TFEs to establish international alliances. In general, TFEs needed to utilise their foreign partners' resources in order to improve the efficiency and effectiveness of their operations. TFEs were in great need of international marketing networks, global databases, as well as a complete and instant package of technology and skills. This aimed to quickly develop TFEs and help them to gain greater advantages from their business. The resources transferred from foreign partners could help TFEs to better respond to foreign and institutional clients. This enabled the company to gain both immediate and long-term benefits. In particular, foreign securities clients transferred from partners, in the form of securities orders, yielded a huge amount of immediate cash inflow to TFEs.

In this respect, Phatra showed a strong determination to utilise its foreign partner's resources so as to be exposed to and promote its status in the global investment community. By employing the alliance, the company was expected to be more capable of handling large-scale financial advisory projects and regional mutual fund management. Besides, Phatra expected that the partner's international networks could foster it to become one of its partner's regional centres, which was able to handle region-wide financial activities.

12.3.6 the criteria associated with the fit and balance of strategic intent

Regarding the alliance selection criteria of TFEs, the sixth hypothesis, ***the criteria associated with strategic fit and balance,*** was important. The three TFEs believed that the compatibility in managerial styles, strategies, visions, and goals resulted in coherent outcomes and expectations, which led to the longevity and durability of the relationship. It eventually led to the long-term improved performance of the alliance. Strong commitment and positive attitudes towards the future of Asian countries was also stressed. This could ascertain the long-term participation of foreign partners in the Asian region, including Thailand. In this respect, the size of foreign partners was also taken into consideration, as the TFEs needed to balance negotiating power between the partners. The unbalanced bargaining power resulted in inequitable benefit allotment and an unstable relationship. In general, all the compatibility was needed in order to advance the relationship to be more intensive, in the form of equity alliance or joint venture, which could ensure the greater commitment of foreign partners to Thai firms in the long term.

12.3.7 the criteria associated with synergy and complementary skills of foreign partners

The seventh hypothesis involved "***synergy and complementary competencies***". This criterion was important to the three TFEs as they seriously lacked strategic resources and competencies. Overall, foreign firms with strong potential in the global financial industry were greatly needed so as to complement TFEs in terms of international grounds. In this respect, TFEs regarded the foreign partner's client base, international networks, global and regional experience and international calibre of executives as important issues for selecting international broker. The companies could blend their local expertise with the international competencies of foreign partners to create synergy for sustainable mutual development.

Apparently, Phatra put great emphasis on their partner's extensive international networks and global information more than other sorts of competencies. This was because the company realised that these resources could not be developed by itself. In other words, the company had been properly developed in other areas, including operational skills, systems, and research expertise during the past co-operation with Warburg.

12.3.8 the criteria associated with consistency in operational cultural issues between partners

The eighth hypothesis associated with ***the operational cultures*** was also of importance to TFEs. They experienced that many TFEs' alliances with foreign partners encountered operational conflicts and potentially ended up with termination. The staff of both partners had significant differences in working styles and cultures, which led to misunderstanding and miscommunication in co-operation. TFEs needed a foreign partner who had a compatible operating patterns in terms of back office procedures, settlement and clearing methods, and other operational grounds. In particular, a small firm, like DEFT, stressed that the working systems of a foreign partner must not be too advanced and complicated for the company to adapt itself to work with them. Otherwise, this might lead to operational culture shock.

However, Phatra regarded these criteria as minor. This was because Phatra's cultures of operation had been significantly developed from the intensive co-operation with Warburg. Also, the company aimed to develop its operational systems to an international standard. Therefore, the firm was ready for coping with and adjusting itself to be compatible with international operational cultures.

12.3.9 the criteria associated with the individual attributes of foreign partners

The ninth hypothesis, ***the alliance criteria with respect to pure cultural issues or individual attributes of foreign partners,*** was disregarded. TFEs figured that the individual characters, such as manners, lifestyles, religion, and official language, of a foreign partner did not directly and significantly affect the performance of the co-operation. In other words, differences were inevitable between partners, particularly in cross-border alliances. The companies had to commit themselves to learn and handle the cultural diversities and realised that the differences must be reduced if their co-operation was to be based entirely upon mutual understandings and benefits. In the case of SCCF and Phatra, they regarded the differences as the opportunities to develop themselves to be regional players. This could make their personnel more familiar with foreign cultures.

12.3.10 the alliance timing associated with industry attractiveness

Regarding the timing of alliance establishment, the tenth hypothesis was related to *"industry attractiveness"*. All three TFE case firms insisted that at the time they chose their alliances the financial industry was internationally attractive. This could be considered by the following factors. ***With respect to the demand conditions***, there was high potential of demand growth in the market, which resulted in bright prospects for the whole industry in the future. However, the demand conditions in the market remained highly volatile as the Thai financial was still considered newly emerging. Yet, there was a potential for long-term expansion in the industry's demand. On the other hand, ***the factor conditions of the industry*** were somewhat satisfactory, primarily due to high liquidity, low interest rates, and supportive government measures. However, there were some fluctuations in liquidity and interest rate conditions as the industry remained much dependent on capital flows from foreign countries. Various financial infrastructures were significantly developed in order to facilitate financial operations and activities in the industry. Yet, the development of the infrastructure needed to be speeded up to match the dramatic changes in the industry, particularly in respect of human resources aspect.

The industries related to the financial industry were also performing well at their alliance time, which could provide TFEs with greater opportunities to prosper. In particular, the banking industry had satisfactory progress due to high liquidity and more business opportunities in seeking innovative ways of earning. At their alliance time, the investment activities, manufacturing industry, construction and property industry, and communication industry, which were major clients of the finance industry, also grew impressively, compared with the overall economy. ***The competitive conditions*** in the industry seemed intense as there were a number of participants in the industry. Moreover, the potential rivals from foreign countries were about to come into the industry when the strict regulatory barriers were eased. However, many of the TFEs competing in the industry belonged to the same group and performed as if they were in the same entity. Moreover, foreign investors coming into the Thai financial industry enormously enlarged the size of the market. This could ease the pressure of high competition in the industry.

12.3.11 the alliance timing associated with the relative competitive positions

The eleventh hypothesis pertained to "***relative competitive positions***". At the time of their alliance establishment, the TFEs also chose the timing when their ***overall competitive positions were relatively strong***. This could be considered from ***marketing capabilities*** at the time. Their market shares were relatively higher than the industry average. Their relationship with their target clients was satisfactory. Also, the local marketing network, in terms of branches, was relatively extensive. Regarding ***efficiency of their services***, the companies' services were regarded as relatively modern and efficient, compared with the average of the industry. The services offered also covered a wide range of financial services. ***Human resources of the TFEs*** seemed to be of acceptable quality. The personnel situation of the companies was less problematic in terms of turnover rate due to their reputation in the industry. ***Public images and reputations*** of the companies at the alliance time were likely to be better than the industry average. This was due to strong support from commercial banks as major shareholders, their past impressive performance, and financial stability. ***Cost and price competitiveness*** of the TFEs was also in a relatively good position as they could acquire cheap sources of funds via thte public groups and their shareholders. However, often, they did not pay significant attention to price competition with other TFEs as they expected to offer only premium and unique services to their clients.

Nevertheless, DEFT's overall competitive position was not relatively strong at the alliance time. Although the company's marketing abilities were satisfactorily developed, the company still had significant weaknesses in terms of services capability, staff quality, and cost of funds.

The reason that the TFEs chose to establish their international alliances when the financial industry sounded internationally attractive and their overall competitiveness was relatively strong was as follows. They calculated that the current economic climate and future prospects of the financial industry as well as their strong competitive position would attract greater attention from foreign partners. Moreover, this could help the TFEs to gain better negotiating powers over their prospective partners.

The companies expected to seize ***huge market opportunities*** via the alliance timing as the financial industry at that time was attractive to foreign investors. The market shares of the companies significantly increased, particularly from off-shore trading. Therefore, their revenue base was enlarged and more balanced. In other words, arranging an alliance at the time helped the TFEs to ***gain better contributions in terms of various resources and assets*** from foreign partners. The companies expected to obtain a complete package of technology and skill transfer, research information, and marketing networks and to quickly utilise the resources due to their preferable bargaining positions.

However, according to smaller firms like DEFT and SCCF, ***the external threats*** were also important. At the time, there were many small and medium-sized TFEs already tying up with foreign brokers. TFEs that did not have a foreign partnership were more likely to lose foreign securities orders and other resource transfers. However, the timing determination had to be made by both parties. In the case of DEFT, the company could not choose the time that its competitive position was strong. As survival amid external threats was the company's first priority, it could not afford to wait any longer. The company itself had weaknesses and needed a partner to help quickly rejuvenate it. Thus, the company had to make a trade-off between benefits and threats from the alliance timing.

12.4 Comparative Quantitative and Qualitative Analysis

12.4.1 Background of TFEs' International Alliances

Regarding the background of TFE's international alliances, primary data gathered from both survey and case study research reflected similar pictures (See Table 12.1). Mostly, TFEs were engaged in the alliances with only one foreign partner at a time. This was because the TFEs intended not to create the conflicts of interest between partners and needed to promote the durability and stability of alliances. The predominant original nationalities of TFEs' foreign partners were European and American. This was because financial firms from these countries were well-developed and possessed adequate resources, in terms of capital, skills, and technology. They then needed to expand their operation and market scope to become global players and needed to penetrate the potential emerging markets. Japanese and Hong Kong firms were becoming more involved in TFEs due to operational culture and distance proximity.

The majority of TFEs' cross-border alliances were in the beginning stage of development (ranging from 3-8 years) (See Table 12.1). They still had to learn the complexity of international co-operation and prepare themselves for the upcoming stages of alliance development. Like the international alliances of emerging countries, TFE's alliances must perform on a trial and error basis until they could find their proper ways and advance themselves with their co-operative strategies. The majority of alliances were minority-equity types, where foreign partners held some parts of a stake in the firms (See Table 12.1). This was because TFEs needed more commitment and contributions from their foreign partners. In other words, the foreign partners regarded this way as the initial step to get involved with and take greater advantages from TFEs. Nonetheless, many TFEs initially established their alliances as non-equity ones. In this respect, there were the implicit needs of the firms to develop the non-equity one to become minority equity alliances or even joint ventures in the future when both partners were satisfied with their co-operative performances.

The areas of co-operation also reflected the needs of TFEs in order to improve themselves (See Table 12.1). The important areas involved customer-oriented activities, including securities trading or brokerage co-operation, research techniques co-operation, and investment banking co-operation. All of the co-operations were expected to strengthen capabilities and improve the quality of TFEs' customer services

Regarding strategic alternatives to international alliances, TFEs preferred alliances to M&A strategies due to resource limitations in terms of capital. Technological requirement for acquiring foreign firms was also an obstacle in this respect. In addition, M&A strategies were prohibited in some TFEs due to policies of the companies. On the other hand, internal growth strategies seemed not be suitable for TFEs at this stage as they still lacked advanced technology and skills to develop themselves. Moreover, creating and developing themselves alone were likely to be too time and resource consuming for TFEs.

Table 12.1 Comparative Analysis of Survey and Case Study Research

"Background of TFEs' Alliances"

Background	Questionnaire and Interview Survey	Case Study Research
-Number of foreign partner	Most were one at a time.	One at a time
-Nationality of partner	The majority was European, American, Hong Kong, and Japanese.	Hong Kong, French, and American
-Duration of alliance	The majority had been established for 3 to 8 years.	Ranging from 3-5 years
-Types of alliance	The majority was minority-equity alliances and non-equity co-operative agreements.	Co-operative agreements to be developed to become equity alliance
-Areas of alliances	The most important areas consist of customer services, securities trading (brokerage), research techniques, and investment banking.	Brokerage or primary market co-operation, investment banking or secondary market co-operation, and research co-operation.
- Strategy alternatives to alliances (M&A)	Too costly (76.8%), too slow (62.9%), and technological barriers (53.7%)	Company policies, resource and technology limitations, government rules
- Strategy alternatives to alliances (Internatl growth strategy)	Technological barriers (84.7%), too costly (80.0%), too slow (77.3%)	Time consuming, resource consuming, lack of technological advancement

12.4.2 Motives of TFEs' International Alliances

In general, TFEs paid significant attention to all of the motives related to expected benefits to be received from the alliances (See Table12.2). This resulted from the specific characters of TFEs. They were operating in a dynamically changing industry, the Thai financial industry. They then were obliged to adjust and improve themselves continuously in order to cope with such volatility. They themselves were considered newly emerging and remained in need of significant adjustment and improvement. Meanwhile, they had been performing well for decades prior to engaging in the international co-operation. Therefore, *both defensive and offensive approches* of strategic motives for cross-border alliances were significant to TFEs' alliance establishment.

Table 12.2 Comparative Analysis between Survey and Case Study Research "Motives of TFEs' Alliances"

Motives of Alliance	Questionnaire and Interview Survey	Case Study Research
-Market-defensive motives associated with competitive uncertainties	Important	Important for DEFT and SCCF; *Not important for Phatra*
-Market-defensive associated with demand uncertainties	Important	Important for DEFT and SCCF; *Not important for Phatra*
-Resource-defensive	Important	Important for DEFT and SCCF; *Not important for Phatra*
-Market-offensive	Important	Important
-Resource-offensive	Important	Important

12.4.2.1 the market-defensive motives with respect to dealing with competitive uncertainties

The first hypothesis seemed important to TFEs' international alliances (See Table12.2). TFEs needed to reduce competitive risks emerging from intense domestic and international competition in the market. In order to stabilise their competitive positions and survive in the market, they were stimulated to engage in cross-border alliance with foreign partners. The alliances were also aimed at competing more efficiently with domestic rivals and turning potential foreign competitors to become friendly partners. This was because the majority of TFEs remained in inferior competitive positions, compared with foreign financial firms. The competitive situations in the Thai financial industry were highly uncertain. Moreover, the Thai financial industry must soon be more liberalised due to forces from relevant international organisations. As a consequence, many TFEs were believed likely to be eliminated from the industry. They then wished to alleviate the negative impacts in order to survive in the highly competitive industry.

However, according to the case study research, Phatra, one of the largest TFEs, seemed not to regard such ideas as the important motives for its alliance establishment (See Table12.2). This resulted from its unique characteristics which were highly strong, stable, and well-developed, compared with those of other TFEs. The company then did not need to focus much on defending its market scope and survived in the market.

12.4.2.2 the market-defensive motives associated with demand uncertainties

The second motive was also significant to TFEs (See Table12.2). They needed to employ cross-border alliances so as to defend market position threatened by demand variability and uncertainties. In this respect, they needed to ease the negative impacts of swings in market demand conditions and changes in customer behaviour. As foreign and institutional clients were becoming more important to the Thai financial industry as a whole, the patterns of demand and customer behaviour were increasingly sophisticated in terms of service quality, efficiency, accuracy, and timeliness. TFEs must seek foreign partner to help provide them with acceptable know-how in order to deal with the changing demands. From the structural changes in the market, the foreign and institutional clients were likely to dominate the majority of the market. The alliances with foreign partners were regarded as a necessary way to recoup TFEs' market share. Moreover, engagement in cross-border alliances would provide TFEs with contributions from their partners to serve influential foreign and institutional clients. However, in the case of Phatra, the company seemed not to pay significant attention to such motives. This was because the company had significantly developed, in terms of its capabilities, from its previous cross-border alliance. Therefore, the company had been familiar with foreign clients' behaviour and was capable of dealing with the changing demands prior to developing its current alliance.

12.4.2.3 The resource-defensive motive

The majority of TFEs also recognised the importance of ***resource-defensive motives*** (See Table12.2). TFEs were in need of strategic resources and assets in order to continue and stabilise their operations. Also, most of the TFEs were relatively small, compared with foreign firms. They still lacked the required resources necessary for offering standard financial services, particularly in the highly unstable economic environment like the Thai financial industry. Therefore, they required direct and immediate resources transferred from foreign partners so as to help them continue their operations and survive in the industry. In particular, TFEs in the transition period of the Thai economy needed to reduce the uncertainties of their supply chain by promoting long-term and stable commitment between partners in providing necessary resources and services. This alliance was expected to be more stable than buyer-seller relationships.

According to the case study research, the smaller and less powerful TFEs paid significant attention to the resource-defensive motives in order to restructure and rejuvenate themselves. The majority of TFEs still had to undergo many stages of operational adjustment, which required a great amount of resources. In this respect, Phatra, again, was not likely to be significantly stimulated by such motives as the company was well-developed and had long recorded its successful performances. The company's various required resources for continuing current operations were sufficient due to its performances and contributions from its previous cross-border alliance. Thus, the company's alliance was not aimed at acquiring necessary resources in order to survive in the industry.

12.4.2.4 The market-offensive motives

The above motive seemed to significantly stimulate TFEs to establish their cross-border alliances. This was because TFEs were in the transition period from local firms to regional enterprises. They wished to use their international alliances to improve their market competitiveness and expand market scope. In this respect, TFEs expected to enhance their capabilities via technology and skill transferred from foreign partners. The alliances aimed to promote the long-term and continuous development of both partners. Expansion of their market boundary was expected to result from such improvement. Further, as most TFEs remained domestic firms and did not have significant exposure to international financial transactions, TFEs' image and reputation at the regional level were expected to grow from co-operating with foreign financial firms. In particular, the large TFEs, such as Phatra, strongly emphasised the importance of market offensive motives as they realised that they were already country specialists and ready to be developed to become a regional specialist via the synergy of cross-border co-operation.

12.4.2.5 The resource-offensive motive

The resource-offensive motives were also importance to TFEs. In this respect, TFEs' alliances were aimed at acquiring and utilising foreign partner's resources in order to improve the efficiency and overall performance of their operations. The resources consisted of international marketing networks, channels of distribution, international databases, and a complete package of technology and skills. All the resources were expected to help TFEs quickly gain immediate and long-term advantages. However, many TFEs emphasised more cash inflows from foreign securities orders transferred from their partners. These motives were highly important due to the opportunistic behaviour of TFEs' executives, who were young, well-educated, aggressive, and highly confident from their past successful background. The past prosperous economic environments prior to their alliance establishment also resulted in their aggressiveness and opportunistic behaviours rather than risk-avoidance behaviours. Therefore, most TFEs apparently expressed the resource-offensive motives of their alliances. In particular, Phatra showed its strong determination to quickly promote its regional status via international networks, and research capabilities of its foreign partner.

12.4.3 Selection Process of TFEs' International Alliances

12.4.3.1 the criteria associated with strategic fit and balance

TFEs were likely to pay attention to ***the criteria associated with strategic fit and balance*** between partners (See Table 12.3). This was due to TFEs' alliance goals associated with the expected long-term and continuous development from durable co-operation. It was strongly believed that the fit and balance of partners' strategic intent contributed to the longevity of the collaboration. The strategic intent included managerial styles and systems, strategies, visions, perspectives, and major objectives. The consistency in partners' strategic intent prevented conflicts of interest and encouraged smooth co-operation as well as mutual benefits and development between partners. Moreover, the appropriate size of foreign partners was of significant concern as the size potentially affected the strategic attributes of foreign partners. Significant differences in size also resulted in unbalanced bargaining powers between partners which could lead to conflicts in responsibility and benefit sharing. In addition, a strong commitment and positive attitudes toward Asian financial markets were considered important as this can reflect the long-term investment policies and goals of foreign partners concerning the Asian region. In this case, a coherent and consistent long-term policy were likely to exist.

Table 12.3 Comparative Analysis of Survey and Case Study Research
"Selection Criteria of TFEs' Alliances"

Criteria of alliance	Questionnaire and Interview Survey	Case Study Research
-Strategic fit and balance	Important	Important for all
-Synergy and complementary competencies	Important	Important for all
-Compatible operational cultures	Important	Important for all
-Differences in individual attributes of partners	Not important	Not important for all

12.4.3.2 the criteria associated with synergy and complementary competencies of partners

The second group of the criteria associated with "*synergy and complementary competencies of partners*" was highly important to TFEs' partner considerations (See Table 12.3). Most TFEs lacked strategic assets, in terms of advanced skills, knowledge, expertise, financial resources, international reputation, marketing networks, and world-wide database, for further developing and advancing themselves to become country and regional specialists. As the major alliance needs of TFEs were to improve their capabilities via the contributions of their foreign partners, the complementary competencies and synergy effects to be received from the co-operation was of major concern. In reality, all of the superior attributes of foreign partners were highly required for TFEs' alliance development. TFEs wished to quickly acquire and create the synergy from combining the core competencies of both parties. However, according to the case study, Phatra did not put significant emphasis on all the assets of the foreign partners. Rather, it focused only on extensive international networks and global sources of research information. This was because the company was adequately strong in other areas such as financial resources, research and service skills, and managerial expertise.

12.4.3.3 the criteria associated with consistency in operational cultural aspects

TFEs' executives believed that the lesser operational cultural gap between partners results in more cohesion and effectiveness in the co-operation. The operational culture involved corporate culture, staff attitudes towards firms co-operation, operational philosophies, basic believes and styles of conducting business. The consistency in operational grounds of both partners contributed to smoothness of the co-operation, particularly in the cross-border collaboration where there were already many differences between partners. In particular, this could lead to misunderstanding and miscommunication of the co-operation among the working-level staff of both partners. Interestingly, DEFT, a small and relatively weak TFE, was more concerned with compatible operational cultures between the partners. This was because the company reckoned that the operational grounds and cultures of the foreign partner might be too advanced and complicated for the company to adapt itself to such systems. In contrast, Phatra regarded the issue as a minor point for foreign partner consideration as the company believed that it was strong enough to cope with and adapt itself to the new advanced operational cultures of foreign partners.

12.4.3.4 the criteria associated with the individual attributes of foreign partners

The last group of criteria involved ***pure cultural issues or individual attributes of foreign partners.*** Most TFEs disregarded the differences in pure cultural issues between partners as an important criterion for partner selection. They believed that these individual attributes of foreign partners, including staff manners, lifestyles, personal perceptions, systems of thinking, religion, and official language, would not significantly affect the performances of cross-border alliances. As long as the alliance was based upon the mutual understandings, mutual benefits, and compatible strategic intent, the cross-border co-operation would prosper. In addition, the pure cultural differences were no longer a serious concern in the Thai financial industry as they were inevitable. Moreover, these unique cultural characters of each foreign financial firm hardly exist as most of the foreign financial firms are multi-cultural entities and recruit staff from many parts of the world. Thus, there was no longer serious concern for TFEs about the pure cultural differences of each foreign partner.

In general, most TFEs sought their foreign partners via *their shareholders and executives' personal and business connections* (See Table 12.4). This could help TFEs to obtain eligible and required partners. This was because TFEs were able to solicit implicit and precise information on prospective foreign partners, particularly in the issues critical to inter-firm co-operation success. In most cases, shareholders of TFEs arranged meetings for both TFEs and prospective partners in order to discuss their potential for alliance development. Also, the unique style of Thai-Chinese business customs always encouraged TFEs to use connections to seek their partners.

Table 12.4 Comparative Analysis between Survey and Case Study Research "Foreign Partner Seeking Process of TFEs' Alliances"

Foreign partner seeking process	Questionnaire and Interview Survey	Case Study Research
-Source of information for alliance	Shareholder connections (50%), past customer relationships (23.1%), the company's research department (16.5%), and reputations of foreign partners (10.4).	Connections and recommendations from shareholders as well as being developed from the past customer relationships
-Application of criteria on the selection process	Well-applied (94%), Emergent (6%)	Well-applied and well-planned
-Influencing factors affecting the selection process effectiveness	Past relationship with foreign partners (82.9%); The validity of their analytical process (77.0); The availability of foreign firms (57.9%); The reputation of TFEs themselves (52.6%)	Data, support, and full attention from shareholders and executives; the clear objectives of alliances; the previous relationships with foreign partners; realistic and practical criteria; sources of implicit information from discussion; adequate time for consideration, more choices of foreign firms; and favourable situations of the firms.

The second most important way of seeking partners was to develop alliances from their past customer relationships. The satisfactory relationships and performance between TFEs and their foreign customers possibly led to the future permanent strategic linkage. In this case, TFEs and the foreign partners had contact with each other prior to alliance development. They apprehended each other's capabilities, strategic intentions and characteristics. Some other ways for seeking information on TFEs' prospective foreign partners involved using their own research department to search for information on partners. In this case, foreign partners were likely to be well-known.

On the other hand, in most cases, TFEs revealed that they paid particular attention to the partner selection process and carefully applied their predetermined criteria for assessing their foreign partners' suitability (See Table 12.4). This was because they realised that foreign partners significantly affected the performance and durability of the whole co-operation. Many times, TFEs, even if affected by the dynamically uncertain competitive conditions, did not need to hurriedly develop their cross-border alliances. This was because they had been protected by strict regulations from the Bank of Thailand.

The most important factor affecting the effectiveness of TFEs' selection process was "*past relationship with their prospective foreign partners*" (See Table 12.4). The relationship was related to the personal and business connections between TFEs' shareholders and executives and foreign firms' prior to alliance establishment. In this respect, TFEs were able to realise foreign partners' strategic intentions, goals, perspectives, sincerity, and competencies before deciding to engage in alliances. Also, the long duration of the relationship between both firms helped TFEs to carefully consider the suitability of the prospective foreign partners.

Moreover, *the clear principles and criteria determined for the selection process* affected the efficiency of the process (See Table 12.4). In particular, there was a written proposal distributed to prospective foreign partners in order to guide and facilitate the process. However, sometimes, small and less powerful TFEs could not determine certain selection criteria due to their inferior negotiating powers and positions. The companies also needed to reach foreign firms' requirements. In other words, in the case of Phatra, a powerful TFE, the company put significant effort and time into the partner selection process in the forms of company visits and critical discussions with foreign firms' executives.

12.4.4 Strategic Timing of TFEs' Alliances

12.4.4.1 The industry attractiveness

Regarding the timing of TFEs' cross-border alliances, there ware two signals. The first is the "***industry attractiveness to foreign firms***". In this respect, the overall condition of the Thai financial industry at the time of TFEs' alliances appeared to be attractive to foreign firms (See Table 12.5). With respect to the demand conditions, the majority of TFEs' executives believed that the Thai financial market during the alliance time were attractive due to their highly potential demand, which was expected to help the industry to continue to prosper in the long-term despite high demand volatility. The factor conditions of the Thai financial industry also presented a positive picture. The financial liquidity seemed to be high due to abundant financial resources available in the market. Also, it appeared to have a strong support from the Thai government, in terms of financial policies and regulations, so as to protect and accelerate the growth of the industry. However, at the same time, there were questions with respect to the sufficiency of qualified human resources and the proper implementation of some supportive policies.

Further, various supporting and related industries seemed to be performing well at the alliance time. The related industries, such as banking, manufacturing, construction and property, and telecommunication had satisfactory performance and growth rates. Nonetheless, there was intense competition in the industry at the time of alliance development, which resulted in dynamically changing and uncertain situations for participants. Yet, as many of the TFEs competing in the industry were of the same group and the size of market was expected to increase, the intense competition did not seriously concern potential and current industry's participants.

Table 12.5 Comparative Analysis between Survey and Case Study Research "Strategic Timing of TFEs' Alliances"

Alliance timing	Questionnaire and Interview Survey	Case Study Research
-Industry attractiveness to foreign partner	Attractive	Attractive
-Relative competitive position	Relatively strong	Relatively strong *except DEFT*
-Initial approach of alliance	Initiated by TFEs (42%), foreign partners (31%), and both (27%)	Both firms approach each other
-Number of foreign partners approaching TFEs at the time of alliance development	One (50.7%), two (13.4%), and more than two (35.9%)	One for DEFT and SCCF, but several foreign firms for Phatra

12.4.4.2 The relative competitive position

The second signal of alliance timing involves "***relative competitive position***". In general, the majority of TFEs arranged their cross-border alliances when their competitive position was relatively strong (See Table 12.5). Regarding their market competitiveness, the TFEs were strong in terms of accessibility to target customers, geographical dispersion of existing markets, and relationships with clients. In this respect, they were likely to receive benefits from a combination between local marketing strengths and regional networks of foreign partners. With respect to efficiency of the TFEs' services, the TFEs had the ability to provide a wide range of customer services and the efficiency of the services were likely to be superior to the industry average. Staff quality, in terms of technical skills and service ability, of the TFEs at the time of their alliance development was also satisfactory. Meanwhile, the firms' image and reputation were likely to be recognisable. The good image of TFEs resulted from their performance, financial stability, and group of shareholders, particularly from the group of commercial banks. The results also showed that the firms' financial position at that time should be stable and satisfactory, resulting in their cost and price of competitiveness. However, many TFEs stated that the price of their services would not be important as they paid more attention to the quality of their services offered.

On the other hand, international alliances could be initiated by TFEs or foreign firms or both (See Table 12.5). Interestingly, there had been many cases of alliances where both TFEs and foreign firms simultaneously approached each other. This case happened because both sides needed to establish the alliances at that time. As for the case studies, all of them were initiated by both sides, TFEs and foreign firms. In this respect, the alliances were likely to be arranged by their shareholders who had business connections with the foreign financial firms. The TFEs' shareholders then discussed matters with their prospective partners and finalised the arrangement.

It was likely that one foreign firm approached TFEs at a time (See Table 12.5). TFEs that were contacted by several foreign firms simultaneously tended to be powerful enough to attract many foreign firms at the same time.

Table 12.6 Comparative Analysis between Survey and Case Study Research "Strategic Reasons for TFEs' Timing Determination"

Strategic reasons of alliance timing determination	Questionnaire and Interview Survey	Case Study Research
- The scarcity of eligible foreign partners	Moderately important	Not important
-The substantial amount of foreign partners' resources	Important	Important
- The considerable marketing benefits to be achieved	Important	Important
-The forces from external threats	Not really important	Important and unimportant

With regard to the reasons for TFEs' alliance determination, TFEs selected the timing when the financial industry was attractive to foreign firms as well as when their competitive position was competitively strong. This was because TFEs paid particular attention to the reasons associated with "*obtaining considerable marketing benefits from the alliances*" and "*acquiring and exploiting the substantial amount of foreign partners' resources*" (See Table 12.6). Most of them needed to receive immediate marketing benefits and opportunities, in terms of securities orders and corporate finance projects, shortly after engaging in cross-border alliances. The obvious benefit in this instance was increased market share of the companies. Also, TFEs wished to gain and utilise the foreing partners' contributions in terms of resources and competencies from the alliance timing. TFEs were in need of resources with respect to advanced expertise, skills, global information, financial assets, and international networks. At that time, TFEs seemed to be in a favourable bargaining position due to economic conditions and their competitive status. During the period of the alliance, TFEs were also able to offer greater benefits and contributions in terms of local connections and knowledge to their foreign partners. Moreover, at that time, TFEs could gain better terms in alliance contracts due to the protective regulations from the Thai government.

The scarcity of foreign partners was also moderately important to TFEs' alliance timing determination. This was because they were afraid that there were a limited number of capable foreign firms interested in allying themselves with TFEs. Though many foreign firms showed intentions to take part in the industry, TFEs still needed to develop alliances with their required and eligible foreign partners. This encouraged them to accelerate their alliance establishment process. However, according to the case study research, the scarcity of financial firms seemed unimportant to all of the three case studies (See Table 12.6). This was because these three TFEs were in the group strongly supported by large-sized commercial banks of Thailand. Their foreign partners were arranged by their shareholders. Even in the case of DEFT, a small TFE, the company was able to conveniently ally with its required partners because of the support from its local ally and shareholder, Thai Farmer Bank. Its foreign partner, Crosby, also accepted that it needed to have an indirect link with the bank.

On the other hand, forces from external threats were not very significant to TFEs in determining their alliance timing. This was because TFEs had been supported and protected by government regulations for a long period. Even though there was a sign of relaxing the rules, it was not about to happen in the very near future. TFEs then did not need to be in a very rush situation by this factor. However, the alliance timing of some TFEs, particularly small and weak ones, was also affected by forces from external threats due to their much vulnerability to environment.

12.4.5 The Realised Performance of TFEs' International Alliances

The majority of TFEs' alliance performances were satisfactory (See Table 12.7). Mostly, the benefits achieved by the alliances involved foreign brokerage and customer transfer, skills and knowledge enhancement, research advancement, and competitive power improvement. In this context, TFEs emphasised the sincerity, trust and consistent goals of their foreign partners, which resulted in sustainable, long-term commitment, and mutual benefits for both partners. In many cases, TFEs' cross-border alliances must be on the basis of reciprocal contributions between partners. Foreign partners offered advanced know-how, expertise, and international marketing networks and information. In return, TFEs provided local business bases and connections as well as Thai business knowledge.

Table 12.7 Comparative Analysis of Survey and Case Study Research "Realised Performances of TFEs' Alliances"

Realised Alliance Performances	Questionnaire and Interview Survey	Case Study Research
-Overall performances	Satisfactory	Satisfactory
-Termination of alliance	Yes (24%), No(76%)	No
-Reasons for termination	Unsatisfactory performance, Expiry of contract, and conflict between partners	N/A
-Needs for alliance improvement	Yes	Yes

Note: *the information in the above table was based on empirical data collected in the fieldwork during January-June 1997.*

From the empirical results, the minority of TFEs' cross-border alliances were terminated (See Table 12.7). The main reasons for the termination involved *"the unsatisfactory performance of the alliances"*. In most of these cases, there were no expected synergy and incremental benefits, in terms of increased brokerage volume, expanded foreign markets, better image and credibility, and enhanced competencies.

TFEs also had a significant need to improve their cross-border alliances (See Table 12.7). The process of technology and skill transfer requires improvement in order to promote sustainable competitive advantages to TFEs. To strengthen mutual understandings between partners and prolong co-operation, communication procedures within the alliances must be improved in terms of their efficiency. Continuous discussions and negotiations with respect to alliance contracts were also strictly required. According to the case study research, TFEs needed to further their cross-border co-operation to become more intensive and complicated, in the forms of minority alliances and joint ventures. Moreover, there were strong needs to expand the co-operation into new areas, including the derivatives business, international syndicate projects, and other innovative financial services and techniques.

12.5 Conclusions

The comparative analysis of quantitative and qualitative research methodology in this study offers the consistent and similar results. The results from quantitative research are based upon statistical analysis of empirical data collected through questionnaire and interview surveys. Meanwhile, the overall findings are elaborated and enriched by qualitative research, the three case studies. However, there are some issues in the case studies which are different from the quantitative results. This is due to the unique attributes and viewpoints of each TFE. All these points are also useful to complement quantitative results and provide us with a complete view of TFEs' international alliances.

The next, thirteenth, chapter is the last chapter of this thesis, which is centred on summary and conclusions that are drawn from all parts of the study. Many important issues are raised and discussed in order to give a clear picture of the international alliances of Thai financial enterprises.

CHAPTER 13

SUMMARY AND CONCLUSIONS

13.1 Introduction

This chapter presents the summary and conclusions of the study. The first section shows the purposes, background, and objectives of the thesis. The review of literature is briefly described in the second part. Next, the research methodology is outlined. The limitations of the research are also included in this part. The overall major findings of the study are presented in the fifth part. Other influencing factors are discussed and explained. Comparison with previous research is presented in the sixth part. Further, the following part sheds light upon the details of the current financial crisis of the country. Various origins and major impacts of the crisis are critically and analytically discussed. The subsequent part sheds light on areas of future research and development from this study. In this section, the transferability of the results to other business sectors and other countries is also presented. Finally, the concluding remarks are provided in the last section.

13.2 Purposes of the study

The study is aimed at investigating and exploring the formation process of international strategic alliances in the dynamically changing and highly growing environment, represented by the financial industry of Thailand. There are three key issues investigated in this study including motives, criteria, and timing of cross-border alliance formation of Thai financial enterprises (TFEs). Thai financial enterprises (TFEs) in this respect involve finance and finance & securities companies in Thailand, which are relatively highly internationalised, compared with other industries.

The major research question of the study involves "***in what ways and with what success have Thai Financial Enterprises (TFEs) developed their strategic alliances with foreign partners?***"

As a consequence, the specific research questions can be defined in greater detail as follows:

-Why did Thai Financial Enterprises (TFEs) ally themselves with foreign partners?

-What factors influenced the foreign partner selection process of Thai Financial Enterprise (TFEs)?

-What factors influenced the timing of international alliances of Thai Financial Enterprises (TFEs)?

The purposes of the research, then, are developed as follows.

1. To examine the motivations and expected benefits of utilising International Strategic Alliances (ISA) of Thai Financial Enterprises (TFEs)
2. To explore the essential criteria influencing the foreign partner selection process of Thai Financial Enterprises (TFEs)
3. To determine the factors necessary for identifying the suitable timing of international alliances of Thai Financial Enterprises (TFEs)

13.3 Brief review of literature

The formation process of international alliances can be described by various theories, consisting of transaction cost theory, resource based theory, and the eclectic paradigm of international production theory. Although these theories employ different approaches to analyse alliance formation, the conclusions from these analyses are complementary to each other.

The first major factor in the alliance formation process relates to international alliance motives. As analysed by two-factor theory, two approaches to motives consist of defensive and offensive motives.

Defensive motives encourage international firms to establish cross-border alliances in order to reduce the degree of anxiety and instabilities resulting from various difficulties and uncertainties in the global and domestic business environment. The defensive motives can be categorised as *market and resource-oriented.* **The market-oriented, defensive motives** involve using cross-border alliances to maintain firms' competitive positions in the market, which are threatened by competitive and demand uncertainties. The market-defensive motives are divided into two groups. The first is *the market-defensive motives with respect to dealing with competitive uncertainties* arising from rapid changes in competitive conditions in the industry. Owing to intensified competition in an industry, a firm requires rapid and flexible responses from transnational alliances in order to cope with such competition, to reshape industry structure, and to ease competitive pressures in the market. The second is *the market defensive motives with respect to dealing with demand uncertainties*. In this respect, international firms are encouraged to develop cross-border alliances due to the demand uncertainty arising from unpredictable changes in demand conditions and consumer purchasing patterns. In order to survive in the uncertain market, international firms must be able to adapt quickly to changing demand conditions. Influences of consumers' taste, preference, and attitude changes are paramount, particularly in a borderless industry. This convergence of consumer preferences across the world is considered a major motive of adopting international alliances for reducing uncertainties and maintaining status in the market.

Regarding **the resource-oriented defensive motives**, international alliances are aimed at acquiring foreign partners' resources in order to defend themselves and stabilise their operations. In this respect, cross-border alliances aim to reduce internal organisational uncertainty which is related to scarcity of resources and operational uncertainty. The scarcity of resources can be tackled by obtaining and sharing resources, essentially leveraging their resources with other foreign parties of the cross-border alliance. The operational uncertainty is caused by a lack of information, skills and knowledge necessary for working as an organisation. Firms then can join international alliances to reduce operational uncertainty through acquiring the knowledge base and competencies of partners so as to meet competitive requirements and stabilise themselves in an industry.

Offensive motives encourage firms to form cross-border alliances so as to perform better, promote skill advancement, expand market boundaries, and improve overall competitive positions. Again, the offensive motives are also categorised as **market and resource-oriented** where the former focuses heavily on marketing benefits and expansion and the latter emphasises exchanging and acquiring strategic resources between partners from different countries.

The market-offensive motives concentrate on achieving market benefits and expansion via development and enhancement of firms' competencies. The incremental market opportunities, both domestic and abroad, through the contributions of foreign partners are recognised as an important driver of cross-border alliances. Multinational companies turn to transnational alliances in order to enlarge limited market opportunities. Strategic alliances, particularly international co-operation, can be constructed to assimilate advanced competencies, to revitalise core operations of allied firms, and to search for new uses of existing expertise in order to improve status in the market. Moreover, in order to expand their market boundaries and scope of activities, partner firms also use cross-border alliances as a platform to enhance their technological advantages, cost advantages, competency empowerment, and superior images and international reputations.

Finally, **the resource-offensive motives** focus on acquiring and utilising foreign partners' assets and resources in order to enjoy incremental benefits and improve their performance from such activities. The international alliances, then, are directly aimed at achieving synergy from utilising foreign partners' resources, rather than expanding firms' market share. In this respect, firms are likely to quickly obtain benefits from resources, both tangible and intangible ones, transferred from partners, instead of gradually learning and enhancing themselves. Cross-border alliances, in this case, are also stimulated by firms' needs for financial resources and other assets of their foreign partners to improve their overall performance. International alliances are believed to provide firms with greater access to various physical and financial assets through mutual contributions between partners. In addition, cross-border alliances are also aimed at exploiting the complementary competencies and potential synergies that partners can offer. Companies directly leverage their foreign partners' strengths and distinctive competencies to gain greater access to large markets and advance their international operations.

The second major factor in the international alliance formation process is criteria for foreign partner selection. Strategic criteria can be categorised into four groups.

First, **the fit and balance of strategic intent**, the strategic intent of a firm refers to critical factors necessary for managing and handling business transactions of an entity, which consist of long-term goals and objectives, strategies, structure, managerial systems, and major operational patterns. Prior to engaging in an cross-border alliance, a firm needs to clearly understand a foreign partner's strategic intent, consisting of strategies, goals, and objectives, in order to create mutual understandings between partners. Further, common managerial experience and principles ought to be considered in assessing foreign partner attributes. Allied firms' common long-term perspectives and acceptance of mutual adaptation must be clarified in order to co-operate effectively with other international parties. In addition, the managerial decisions and strategic directions of foreign partner firms must be matched in order to enhance cross-border alliance effectiveness.

Second, **synergy and complementary competency** of partners is a major criterion in cross-border alliance development. Firm's core competencies comprise skills, knowledge, ability, technology, specialisation, expertise, creativity and innovation, as well as image and reputation. Entities within a cross-border collaboration should complement each other in terms of skills, expertise, resources, assets, technology, as well as managerial experience and industrial information in order to gain resources that they lack and to create synergy.

Third, **cultural issues**, sometimes called "soft" factors, are regarded as an important criterion in the foreign partner selection process. The greater the cultural gap between the firms forming an cross-border alliance, the more difficult it will be to create the necessary cohesion. Cultural issues in this study are divided into two categories, operational culture and pure culture (individual attributes).

The operational culture involves underlying values, beliefs, and principles that serve as the fundamental basis of organisational operations. It is widely believed that multinational networks usually fail when the organisational values, beliefs, and philosophies of each partner are significantly different. Vast differences in operational styles, perspectives, and orientations cause major inconsistencies between foreign partners in a cross-border collaboration and lead to future difficulties and conflicts in the co-operation. Hence, in searching for compatible partners, operational culture of foreign partners must be identified in order to assess foreign partners' suitability.

The individual attributes or pure culture of foreign partners are also of important concern. The individual attributes or purely cultural aspects refer to a distinctive set of patterns of behaviours, common understandings, and characteristics which are specifically held by a particular firm and do not directly affect a firm's performance. These individual attributes and characteristics of prospective foreign partners affect the efficiency and effectiveness of collaborations. The high degree of consistency in the individual value and characteristics of each international partner firm should foster trust and a co-operative relationship among the partners. With reference to the distinctive attributes of each particular firm, factors of kinship, tribal groups, religious, racial, and personal differences are constituent parts of a purely cultural aspect. Significant differences in these factors between partners can complicate a web of co-operations and eventually jeopardise the cohesion of cross-border alliances.

The last major factor in alliance formation process in this study is the strategic timing of alliance development. In this study, two strategic signals, *industry attractiveness to foreign partners and firm's relative competitive position,* are considered in relation to the suitable timing of international alliance development.

The first signal is **the industry attractiveness to foreign partners.** Firms believe that the industry's attractiveness affects the overall performance of their cross-border co-operation due to various market and resource benefits to be quickly gained from such an industry. Moreover, firms can attract more prospective foreign firms to become their partners. The firms will be able to quickly expand their market and scope of operations as well as, in time, gain more business opportunities in the growing market through synergy from their collaboration. In addition, during the period, firms are in favourable bargaining positions as developing cross-border alliances with them at the time provides their foreign partners with great benefits from the growing and promising investment opportunities in the industry. The major factors affecting the industry's attractiveness to foreign firms comprise demand conditions, factor conditions, supporting and related industries, as well as rivalry and competitive conditions of the industry. In this study, the diamond model of Porter (1990) is adapted to analyse the international attractiveness of an industry when firms establish cross-border alliances.

The second signal is the **relative competitive position of firms** at the time of international alliance development. It is believed that firms are likely to choose their timing for cross-border alliance development when their overall competitive positions are relatively strong and do not have any serious problems that would significantly affect their alliance's performance. This is because the firms are able to be attractive to foreign partners and gain better recognition. Further, the firms should be helpful companions to foreign partners. They then not only provide their partners with required and sufficient contributions, but also are capable of learning and obtaining skills and resources transferred from their foreign partners. Moreover, in the case that the firms are relatively strong, they can increase their negotiating power in order to bargain for favourable terms in alliance contracts. In this respect, the Rohlwink's framework is employed to evaluate the competitive position of an allied firm. The key elements in the framework consist of market coverage, accessibility to customers, service performance, image and reputation, staff quality, and price competitiveness (for more detail, see Chapter 3).

13.4 Methodology and Limitations

13.4.1 Methodology

The research is designed to achieve the highest possible reliability through combining unique strengths from both quantitative and qualitative research approaches. The quantitative methods are expected to increase the generalisability and reliability of the research. On the other hand, the qualitative approach are employed in order to elicit sensitive and strategic thoughts behind the research issue and achieve the richness of information to thoroughly understand the relationships among influencing factors.

The fieldwork was carried out from January to June 1997, a peruiod of approximately 6 months. The questionnaire surveys were conducted with 205 executives of 54 TFEs engaged in cross-border alliances. The response rate was 74.15% (152 returned out of 205 issued). The interview survey, face-to-face interviews, were also arranged with top executives, including managing directors, deputy managing directors, and vice presidents, of the TFEs. This is to solicit the critical issues and cross-examine the results gathered by the questionnaire surveys. The survey findings are employed as a database for the case study research and increase the reliability of the whole research.

To increase the explanatory power of the research, the case study research was also conducted with three TFEs of different sizes, comprising Pathara Dhanakit Finance and Securities Public Company Limited, SCCF Finance and Securities Public Company Limited, and Dynamic Eastern Finance Thailand (1991) Public Company Limited. The three TFEs from each size category were chosen based upon their performance and accessibility. These companies were also believed to have renowned and interesting linkages with foreign counterparts. The major tools of data collection in this respect were composed of in-depth and open-ended interviews and secondary data searching. The interviews were conducted with key executives involved actively in the planning and formation process of the companies' international alliances. They usually included managing directors, deputy managing directors, executive vice presidents, and division directors. The investigation of secondary data and related documents was also stressed. Various sources of secondary data and documents were searched from both inside and outside organisations.

13.4.2 Limitations

This study contains some limitations as follows. First, the research is conducted amid the dynamically changing situations in both the industry and country of the study. The country base of the research, Thailand, is one of the emerging economies whose environmental conditions are rapidly changing. The Thai financial industry is also dynamically changing and being in transition period. The implication of the findings for other countries with different development stages should then be drawn with caution. This is because some ideas may be incompatible with economic conditions in other developed and mature countries.

Second, the study focuses on the introduction and growth period of the Thai financial industry. The results and conclusions of the study may not be completely applicable to other periods of the business cycle, including the maturity and declining stages. Therefore, the implications of the results should be treated with careful consideration. This is because various strategic thoughts behind TFEs' international alliance formation may be significantly affected by the stages of development of the industry.

Third, regarding the qualitative research, only three case studies are investigated. The number of case studies may be considered small and limits the generalisability of the qualitative research.

13.5 Major Findings

13.5.1 The Overall Results

The major content of this research focused on the formation process of the international strategic alliances of Thai Financial Enterprises (TFEs). Thai financial enterprises in this study involves finance companies, consisting of finance, securities, and finance&securities companies in Thailand. This is because the group of companies was in the higher stage of internationalisation and more exposed to the foreign environment, compared with other sorts of financial firms. In addition, the arrangement of international alliances had been increasingly important and seemed like "*a must*" for TFEs.

This study investigated the international alliances of TFEs, which had been arranged up to the end of 1996. The period was considered to be the introductory and growth period of the Thai financial industry, in respect of which most TFEs still enjoyed the prosperity of high economic returns on investment. The results of this study represented the formulation and implementation of international alliance strategy in a dynamically changing industry, which was in the transformation period from total domestic to international operations.

TFEs' international alliances focused on securities business co-operations. The major areas of co-operation included primary market collaboration, secondary market collaboration, and research technique collaboration. The primary market collaboration involved joint management and operations in corporate finance deals and investment banking activities. The secondary market collaboration encompassed joint brokerage operations, securities trading order transfers, as well as securities marketing operations. The research collaboration involved co-operation in research techniques, skills, information, and training and development of research staff. Major nationalities of TFEs' foreign partners were European, American, Hong Kong, Japanese, and Singaporean respectively.

❖ TFEs' International Alliance Motives

Regarding the formation stage of TFEs' cross-border alliances, TFEs seemed to pay significant attention to all major aspects of motives, including defensive and offensive approaches as well as market and resource-oriented, in alliance development. Both defensive and offensive approaches were of major concern to TFEs as their alliances were aimed at defending themselves from external threats and uncertainties as well as further developing themselves to become more competent. Various factors influencing the strategic motives of TFEs were identified as external and internal factors as follows (See figure 13.1).

With regard to ***external factors***, the overall condition of emerging countries, which was combined between major uncertainties and business opportunities, influenced TFEs' thinking process concerning their alliance motives. ***Economic conditions*** in emerging countries, including Thailand, were considered to be highly unstable. In particular, in the Thai financial industry, there were uncertainties in ***market demand and client structure.*** The demand was volatile and unpredictable. The client structure and patterns of customer behaviour were rapidly changing as they were affected by variables within the industry and outside the country. The industry factor primarily involved customers who were increasingly educated and demanding. Another factor was the development process of the Thai financial industry itself which was aimed at being more efficient, competitive, and responsive to customers. ***The participation and manipulation from foreign partners*** also brought in new technology, skills, capital, and the highly potential groups of customers. All these factors led to changes and uncertainties in the industry.

Meanwhile, the dramatic changes in economic conditions also fostered great business opportunities for TFEs. This was due to ***the high potential for business growth*** in the industry, at the growth period, resulting from ***its abundant resources and infrastructures***, ***supportive regulations and actions of the government,*** and various inflows of foreign resources and capital. All of these encouraged TFEs to think in optimistic and opportunistic ways. Moreover, ***the prosperous performance*** of the whole industry during the past several years, prior to their alliance establishment, made them more aggressive in strategic formulation. This was due to the Thai financial industry that had long been in the growth period and enjoyed easy-to-earn money before arranging their alliances. Hence, TFEs' cross-border alliances were deployed as a means to capture business opportunities, to support their development, and to promote their market competitive positions.

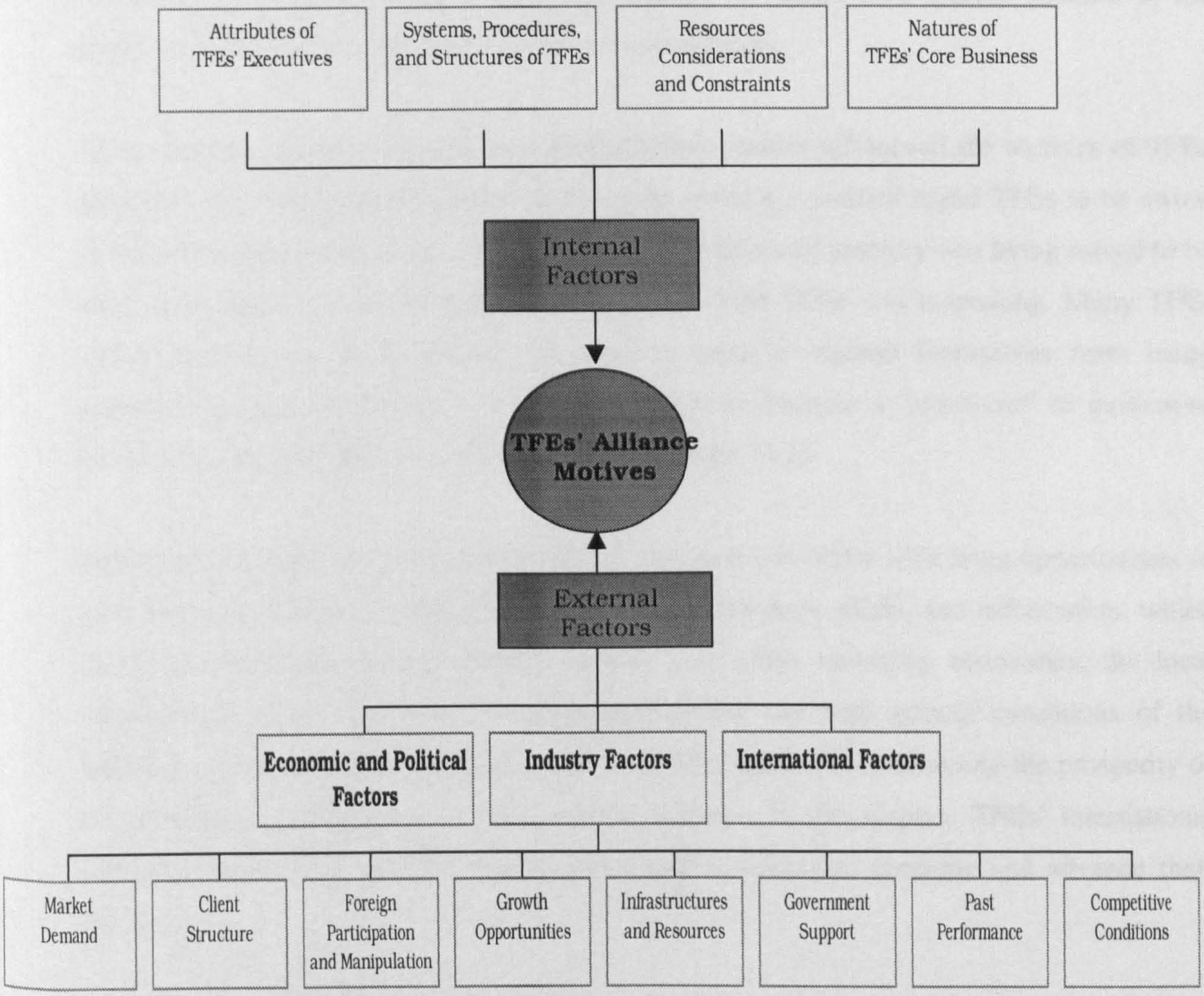


Figure 13.1 TFEs' Motives of International Alliances

TFEs' motives for cross-border alliances were also driven by ***competitive conditions of the industry***. The competition was highly intensified, as there were a number of participants in the industry. Although there had long been a high growth rate in the industry, TFEs, particularly small and less powerful ones, struggled for survival in the high competition. In addition, the number of potential foreign rivals, which were relatively more powerful than TFEs, also threatened and multiplied the degree of competitive uncertainties in the Thai financial industry. The regulations from the public authorities requiring TFEs to maintain minimum market share in the stock market also significantly intensified the competition. Recently, there had been alternative investments, apart from the formal and conventional stock market (SET), such as debt market, over-the-counter market, and the under-construction derivative market. TFEs then needed to defend their market position in the highly competitive industry via cross-border partnerships.

Direct forces from ***international and globalisation factors*** influenced the motives of TFEs alliances. The widespread imperialism from the western countries urged TFEs to be aware of their future positions in the industry. As the Thai financial industry was being forced to be more liberalised, the domination of foreign firms over TFEs was increasing. Many TFEs turned potential rivals to friendly partners in order to defend themselves from being acquired. In other words, they also turned threats to become a "*short-cut*" to modernise themselves via their alliance relationships (See figure 13.1).

Apart from threats, the globalisation effects also provided TFEs with huge opportunities to gain benefits. It helped bring in foreign capital, technology, skills, and information, which the Thai financial industry seriously lacked. Like other emerging economies, the local resources were not adequate to sustain and further the high growth conditions of the industry. Foreign capital was regarded as required resources for continuing the prosperity of the economies, particularly in the financial industry. In this respect, TFEs' international alliances were aimed at achieving the necessary resources to continue and advance their operations.

Major internal factors affecting the motives of TFEs' alliances include ***the attributes of TFEs' executives*** (See figure 13.1). The executives were likely to be aggressive and opportunistic. This was primarily due to their backgrounds. In this respect, the executives were highly educated and considered to be a privileged class in society. In addition, they had managed their financial companies successfully, which had resulted from both a supportive economic environment and their capabilities. They then had high self-confidence and were likely to pursue aggressive and innovative strategies, including cross-border alliances, to achieve great benefits.

Quite often, many TFEs paid greater attention to immediate benefits rather than long-term and sustainable advantages. To quickly improve their performance, they tended to concentrate on brokerage transfer, which provided short-term immediate cash inflows, rather than technology and skill transfer. This also encouraged TFEs to focus on short-term alliance motives for achieving immediate resources and benefits.

Systems, procedures, and structures of TFEs' operations, which had not reached international standards, urged the firms to seek significant help from competent partners. As the majority of TFEs had been prosperous and developed for only about one decade, all their operational grounds were not yet solid and well-prepared. Also, they needed to restructure their operations in order to focus more on foreign and institutional clients. They then had to be quickly improved and a significant amount of contributions from partners would be helpful in this respect.

Various resource constraints of TFEs, in terms of capital, expertise, international market networks, and research information and directions, were another major factor driving them to establish alliances. In particular, TFEs seriously lacked the resources necessary for developing themselves to survive and succeed at the international level. In this respect, TFEs' local allies, mostly Thai commercial banks, could not provide them with such internationally required resources as the banks had been only slightly exposed to international competition. Additionally, the business of the commercial banks focused entirely on credit and foreign exchange businesses which were different from those of TFEs. Thus, the required resources could only be fulfilled via alliances with foreign firms in the complementary field of business.

Likewise, ***the nature of TFEs' core business,*** which was exposed to the international financial community and more internationalized, was also a major driver. As the securities business, including brokerage, investment banking, research, and asset management, seemed to be most important for TFEs, the firms were more likely to depend on foreign brokerage houses. This was because the securities business became relatively boundless, compared with the credit business of commercial banks where the scope of business was at the domestic level. Moreover, the credit business was highly protected and supported by the government. The Bank of Thailand also committed itself to be the last resort provider for the banking and credit industry. Thus, they did not need to rely much on foreign partners in the credit business.

In detail, all the above factors had impacts on the motive hypotheses as follows.

13.5.1.1 the market-defensive motives in respect of dealing with competitive uncertainties

The first motive hypothesis was significant to TFEs' alliance development. This sounded similar to western alliance motives, which were encouraged to develop cross-border alliances in order to reduce competitive risks resulting from intense domestic and international competition. Regarding TFEs' alliances, they were aimed at alleviating competitive pressures from foreign rivals. This is because of intensive globalisation forces. TFEs must defend themselves and maintain their market boundaries. Moreover, most TFEs remained small and relatively weak, compared with foreign brokers. They hardly tolerated the intense pressure from both domestic and global competition. The trend in the Thai financial markets in the near future seemed to be increasingly difficult for TFEs due to threats from existing and potential rivals.

13.5.1.2 the market-defensive motives in respect of dealing with demand uncertainties.

Like western international alliances, TFEs paid significant attention to this motive due to the dramatic changes in customers' behaviour and purchasing patterns as well as the great swings of market demand conditions. In the case of TFEs' alliances, this motive was increasingly important as the demand in the Thai financial market was unpredictable. The market also had been affected by the manipulation and intervention of foreign investors. The dramatic and rapid changes in demand patterns and structures, then, were intensified. In particular, the securities clients of TFEs was more demanding in terms of services quality, accurate advice, and investment returns. Thus, TFEs needed to establish international alliances to stabilise their market status from demand uncertainties.

13.5.1.3 the resource-defensive motives

Likewise, TFEs' alliances were also stimulated by these motives in order to obtain the transfer of resources necessary for providing standard financial services and stabilising their operations. In this respect, TFEs emphasised resources related to advice, capital, infrastructures, and various technical services required for maintaining and continuing their operations. This was because TFEs remained relatively small and had a high resource dependency on foreign partners. The majority of the firms were likely to rely on partners in order to survive the industry. Nevertheless, capital seemed to be less important in some TFEs as they had been supported by their local shareholders, various Thai commercial banks. Furthermore, the high liquidity in the Thai financial market and TFEs' high debt capacity in the past helped the companies to possess sufficient financial resources without significant contributions from foreign partners.

13.5.1.4 the market-offensive motives

These motives were also similar to that of international alliances of western countries. The alliances were aimed at enhancing their capabilities in order to develop the scope of the business and new markets. This motive was likely to emphasise long-term orientation of business. In particular, TFEs attempted to employ their alliances so as to promote their skills with respect to advanced financial and securities services. The expertise, which was of vital importance to TFEs, included research and analysis skills, global information and direction, institutional customer services, and internationally acceptable working systems. However, such a long-term motive, even though it was important to TFEs, seemed to be less focused by TFEs than a short-term motive associated with acquiring strategic resources.

13.5.1.5 the resource-offensive motives

Like western cross-border alliances, TFEs seemed to pay particular attention to these motives. This was because TFEs still lacked and were in great need of strategic resources from foreign partners so as to further improve their performance and internationalise themselves. The resources focused on in this stage included advanced research expertise and information, and international marketing networks. In particular, the resource transfer stressed by most of TFEs was "*foreign securities trading orders*". This exactly matched TFEs' real needs in respect of gaining immediate cash inflow and profit. These were considered to be increased short-run liquidity and profitability of the firms, rather than expanded market boundaries. This was because the foreign securities transfer was not able to help TFEs to increase sustainable market shares and competitive advantages. This point also demonstrated a difference between the long-term oriented alliances of western countries and the short-term oriented collaboration of TFEs.

❖ TFEs' Foreign Partner Selection Criteria

Regarding the foreign partner seeking process, TFEs usually sought their prospective partners via the connections and recommendations of their shareholders and executives. In many cases, TFEs developed cross-border alliances with their previous foreign customers.

TFEs emphasised the importance of the partner selection process and regarded the process as a critical success factor in alliances. The criteria were directly influenced by ***the motives and objectives of alliances*** (See figure 13.2). In general, TFEs stressed the importance of criteria associated with *synergy & complementary competencies, strategic fit and balance*, and *operational cultural compatibility*. This could be derived from TFE's motives with respect to the *resource-defensive and –offensive approach*. In this respect, TFEs needed foreign partners possessing resources, assets, and business complementary to those of themselves so as to create the synergy effects for mutual prosperity. First, TFEs needed the resources for defending themselves as well as handling risks and various operational problems in order to smoothly continue their operations in the industry. Second, the required resources were expected to be utilised and exchanged to create synergy for enhancing mutual development and accomplishing their higher-level motives.

Likewise, TFEs' motives associated with the *market-defensive and -offensive approaches* apparently affected their selection criteria. The motives focused on preparing TFEs to handle various uncertainties in order to defend their market positions as well as continuously improving themselves to expand their market scope and activities. In this respect, TFEs emphasised longevity, stability, and mutual understanding and benefits of the alliances. The longer the alliances, the greater the continuous improvement would exist. TFEs' criteria then focused on compatibility between partners, both at the strategic and operational level. This was expected to reduce conflicts of interest and long-term problems in the management and operations of the alliances. Also, long-term co-operation resulted in better utilisation of foreign partners' resources which brought huge advantages to TFEs.

The uncertainties and dynamic changes in economic conditions, particularly in the international financial market, put pressure on TFEs. They then must seek foreign partners who possessed resources and competencies seriously required by TFEs in order to quickly utilise them. In such a changing environment, TFEs could not afford to build up of the competencies by themselves due to time and resource limitations. Thus, the complementary competencies became an important criterion. However, inter-firm collaboration amid the uncertain situations, especially cross-border ones, was vulnerable as there were many uncontrollable variables negatively affecting the performance of the whole co-operation. In this case, cohesion and harmony between partners were of vital importance. Hence, the strategic balance and operational compatibility become of major concern for selecting foreign partners.

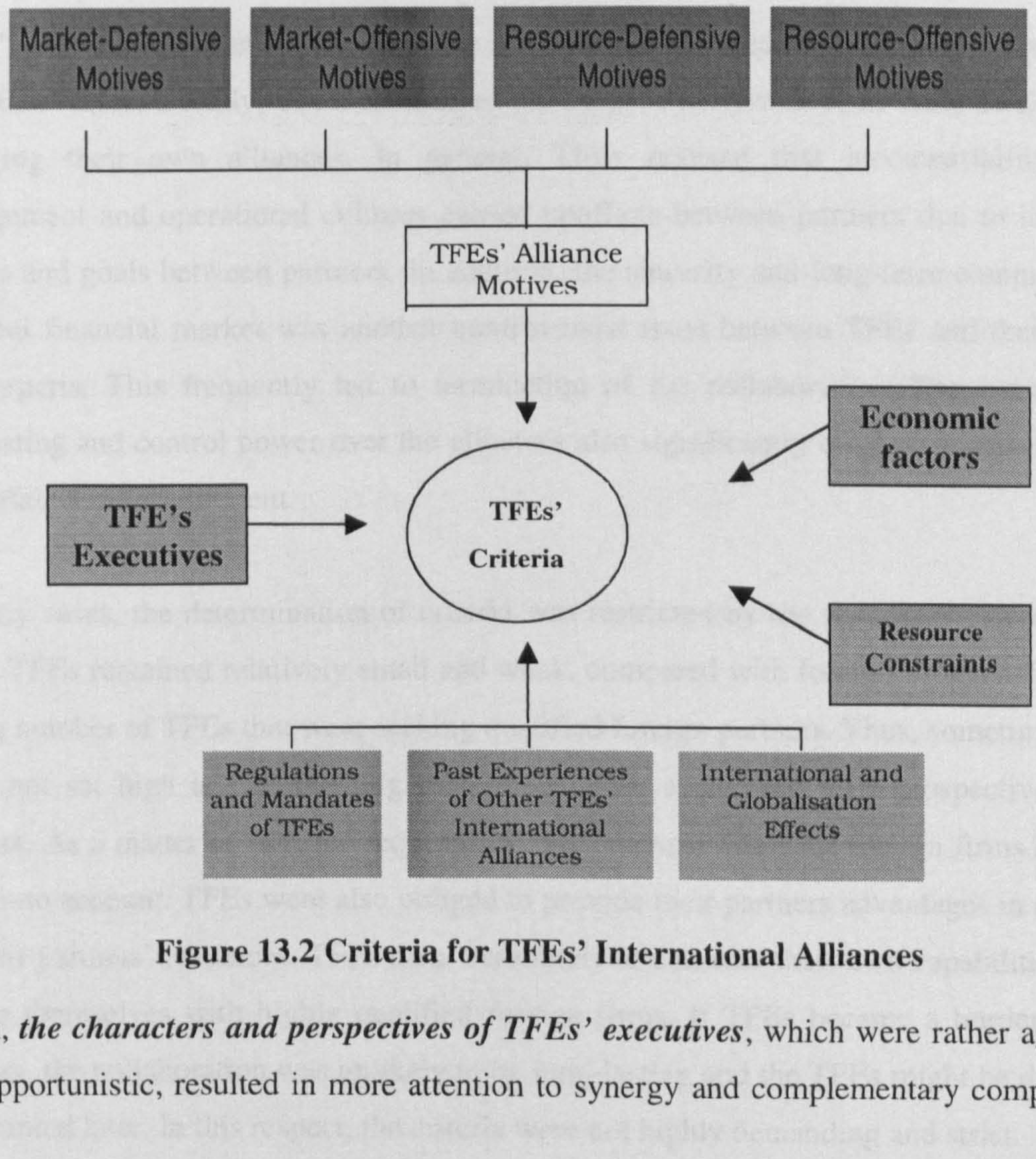


Figure 13.2 Criteria for TFEs' International Alliances

Again, ***the characters and perspectives of TFEs' executives***, which were rather aggressive and opportunistic, resulted in more attention to synergy and complementary competencies.

This was because the executives were eager to achieve immediate benefits from the utilisation of partners' resources. Such complementary competencies seemed to be more important to the TFEs that focused heavily on short-term and immediate advantages from their alliances.

Regulations of TFEs themselves also affected selection criteria. Many times, there was a mandate from major shareholders in directing TFEs to alliances with the agreed foreign partners. The alliances were likely to be developed from personal and business connections of TFEs' shareholders. In some cases, the foreign partners were referred to by the companies of the same ownership or holding group with which TFEs' shareholders had ever had relationships. In this respect, the criteria associated with complementary resources and assets seemed to be relaxed as TFEs focused more on previous relationships and compatibility.

TFEs' past experiences of cross-border alliances in the financial industry were another important factor. Usually, TFEs considered the alliance performance of other TFEs prior to arranging their own alliances. In general, TFEs realised that incompatibility in the management and operational cultures caused conflicts between partners due to incoherent visions and goals between partners. In addition, the sincerity and long-term commitment to the Thai financial market was another controversial issue between TFEs and their foreign counterparts. This frequently led to termination of the collaboration. The imbalance of negotiating and control power over the alliances also significantly resulted in dissatisfaction and unfair benefit allotment.

In many cases, the determination of criteria was restricted by ***the resources constraints*** of TFEs. TFEs remained relatively small and weak, compared with foreign brokers. There still were a number of TFEs that were seeking qualified foreign partners. Thus, sometimes, TFEs could not set high and demanding requirements for evaluating their prospective foreign partners. As a matter of fact, the requirement and response from the foreign firms had to be taken into account. TFEs were also obliged to provide their partners advantages in exchange for their partners' resources. TFEs then were likely to consider their own capabilities before allying themselves with highly qualified foreign firms. If TFEs became a burden to their partners, the collaboration was unlikely to be long-lasting and the TFEs might be dominated or occupied later. In this respect, the criteria were not highly demanding and strict.

On the other hand, the differences in pure cultural issues and individual attributes of foreign partners insignificantly concerned TFEs in partner selection. As the ***globalisation factor*** had a strong impact on the Thai financial industry, such differences apparently existed and were considered inevitable. In particular, cross-border alliances, which involved co-operation between firms of different countries, were supposed to have differences. TFEs must confront and manage them in constructive ways. In addition, TFEs figured that the differences in pure cultural issues, such as nationality, language, beliefs, and the like, would not seriously affect the performance of their co-operation as long as they made their alliances coherent in strategic and operational aspects as well as based on mutual benefits.

All the above factors had impacts on the criterion hypotheses as follows.

13.5.1.6 the criteria associated with the fit and balance of strategic intent

Like western countries' international alliances, the fit and balance of strategic intent between partners were emphasised by TFEs as they wished to prolong and stabilise their co-operation in the long term. TFEs believed that consistency in long-term objectives, visions, and strategies resulted in durable alliances and long-term benefits. However, TFEs seemed not to pay attention to the criteria as much as western companies did. This was because TFEs' alliances were likely to focus more on complementary competencies, which could help them gain immediate advantages rather than long-term technology transfer.

13.5.1.7 the criteria associated with synergy and complementary skills of foreign partners

The majority of TFEs desired quick and considerable benefits from synergy of the companies' and foreign partners' resources. The companies focused on strategic competencies that they seriously lacked, which consisted of research resources, foreign marketing channels, global information and foreign securities clients. Noticeably, TFEs seemed to overstress foreign securities orders and clients which were regarded as short-term benefits. This was different from western cross-border alliances which were likely to concentrate on long-term technology transfer and sustainable synergy.

13.5.1.8 the criteria associated with consistency in operational cultural issues between partners

The eighth hypothesis was concerned with consistency in operational cultural aspects between partners. The lesser the operational cultural differences with respect to beliefs, values, attitudes towards operations as well as business customs resulted in smoother co-operation. In the case of TFEs' alliances, they paid particular attention to operational systems of securities and financial services between partners, especially at the operational level. The different operational standards between TFEs and foreign partners were also of concern in order to prevent cultural crash in co-operation.

13.5.1.9 the criteria associated with the individual attributes of foreign partners

Unlike western cross-border alliances, TFEs did not regard the issues as an important criterion. They believed that the pure cultural issues in respect of personal attitudes, general perceptions, life styles, nationality and language, did not significantly affect performance and stability of alliances as long as the co-operation was based on mutual benefits and understandings. In particular, the characteristics of Thais were flexible and easy-going. Most foreign cultures could be absorbed and adopted by Thai people. Thus, the differences in the pure cultural issues should not create harmful effects to the alliances. Moreover, the issues were believed to be inevitable in cross-border collaboration. The pure cultural differences were not taken into account for foreign partner selection.

❖ TFEs' International Alliance Timing Determination

The determination of TFEs' alliance timing seemed to be strongly influenced by their motives as the firms needed to arrange co-operation when they had the greater chance to accomplish their goals (See figure 13.3). Regarding ***the resource-offensive and -defensive approach***, TFEs were likely to arrange their alliance when they were in a favourable position and had strong negotiating power. As a result, TFEs were able to bargain for satisfactory terms of their co-operative contracts. They expected to utilise the transferred resource in order to correct and further develop their operational capabilities. In addition, as the TFEs were obliged to provide their partners with reciprocal benefits from their alliances, it was important that the economic environment in the industry should be bright and attractive. Also, the overall competitive conditions of TFEs ought to be relatively strong so as to be able to co-operate with the partners and offer them their needed local advantages.

TFEs also chose the timing when the overall prospects of the industry were attractive on account of ***market -defensive and -offensive motives.*** The firms preferred the timing when the industry looked prosperous, particularly in terms of market demand, so as to attract foreign partners and allow TFEs to achieve greater advantages from such an environment. Although the industry remained volatile, uncertain, and competitive, this was common for emerging markets. The bright prospect of the financial market, in terms of demand growth, high liquidity, strong supports from government and from related industries, was attractive to foreign counterparts. Importantly, TFEs could receive huge benefits from increased investment opportunities for both foreign and local investors. Furthermore, they expected to obtain a large number of foreign investors transferred from their foreign partners during the properous period.

In other words, the TFEs' strong competitive position was important, particularly in market competitiveness, operational efficiency, and staff quality. As TFEs needed foreign partners' contributions to facilitate their market expansion abroad, in return, foreign partners also expected TFEs to help them to establish footholds in Thailand. Thus, the TFEs were required to have strong local networks and connections to respond to foreign partners' needs. In other words, foreign partners were usually far more advanced, in terms of skills and expertise, than TFEs. If TFEs needed to efficiently improve themselves from partners' competence transfer, they were not supposed to be weak and inefficient in this respect. Moreover, a local partner, who had serious operational and financial problems, would not attract foreign partners as they would be regarded as a burden. Even though some foreign firms would accept inferior TFEs, the TFEs must lose a huge amount of advantages from the alliances.

Similarly, ***TFEs' selection criteria*** also affected the timing of TFEs' alliances. In this respect, the firms needed foreign partners' possessing abundant complementary resources and having strategic and operational cultural compatibility. TFEs were likely to arrange their co-operations when the relevant conditions, both external and internal, could attract foreign partners. TFEs' alliance at that time must have advantages to offer their partners. Meanwhile, they should be ready to receive and make use of the partners' resource transfers. The external environment in the industry must be supportive and highly potential in growth. Also, TFEs themselves were obliged to fulfil foreign partners' desires, including local market networks and connections, and local knowledge. In general, TFEs' financial support and business commitment from their shareholders, commercial banks, were important attractions of TFEs. These favorable conditions enabled TFEs to set and apply the predetermined criteria to the partner selection process.

Together with the above influencing factors, there were direct reasons explaining TFEs' alliance timing selection. The first was the encouragement from ***windows of opportunities***, consisting of *market and resource benefits* (See figure 13.3).

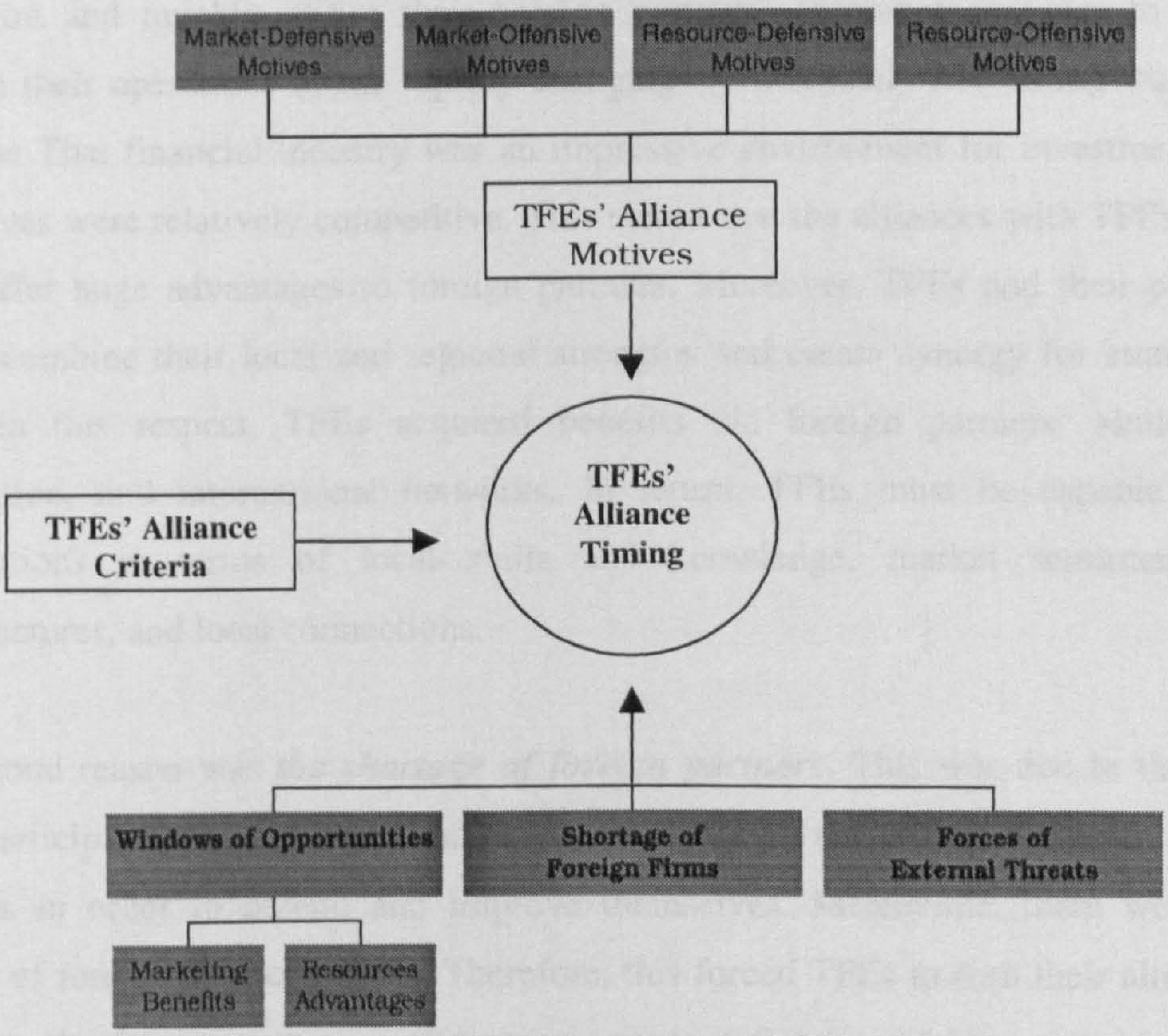


Figure 13.3 TFEs' International Alliance Timing

A substantial amount of marketing benefits to be received from alliance establishment was significantly related to their alliance timing. As mentioned earlier, TFEs expected to make alliances for achieving as much advantage as possible from their improved marketing activities, both domestic and international markets. Thus, the firms endeavoured to choose the timing when the investment climate and overall conditions of the Thai financial industry were prosperous. The growth rate of the market must be relatively high. Under the circumstances, when TFEs started to co-operate with their foreign counterparts, they would have greater opportunities to compete for market shares in the growing Thai financial industry. In addition, they would have better chances to obtain market benefits from the tremendous inflow of foreign investment at that time. Meanwhile, TFEs were required to have enough competitiveness so as to co-operate efficiently with their partners and obtain timely market benefits. Otherwise, the TFEs would have to focus on reviving themselves first and lose opportunities to achieve further expected benefits.

With regard to ***achieving resource benefits from foreign partners***, TFEs focused on their bargaining power when discussing their alliance contracts. In this context, the firms wished to acquire and quickly utilise their foreign partners' resources in order to sustain and promote their operations in the rapidly changing environment. The timing was favourable when the Thai financial industry was an impressive environment for investment and TFEs themselves were relatively competitive. This means that the alliances with TFEs at that time could offer huge advantages to foreign partners. Moreover, TFEs and their partners were able to combine their local and regional strengths and create synergy for attaining mutual goals. In this respect, TFEs acquired benefits via foreign partners' skills, expertise, information, and international networks. In return, TFEs must be capable of offering contributions in terms of local skills and knowledge, market sentiment, domestic infrastructures, and local connections.

The second reason was ***the shortage of foreign partners.*** This was due to the number of TFEs participating in the Thai financial industry. TFEs needed to engage in international alliances in order to defend and improve themselves. Meanwhile, there were a limited number of foreign financial firms. Therefore, this forced TFEs to rush their alliance timing. However, the foreign partner in this meaning was defined as highly needed partners. As a matter of fact, there were numerous foreign financial firms expressing an intention to make alliances with TFEs (in the period up to the end of 1996 prior to the emergence of the financial crisis). Hence, there was no serioeds problem associated with the shortage of foreign firms, in terms of quantity. The problem would arise when the quality of foreign firms was taken into consideration. Yet, in many cases, the shortage was not considered an important force of timing determination, particularly for TFEs supported by commercial banks. The TFEs could seek foreign partners through the rapport of their shareholders. Moreover, during the growth period, TFEs were not in a difficult situation. If they could not ally with their required partners or there was an unfavorable timing which made them lose significant expected benefits, they were willing to postpone their alliance establishment and wait for the better signal.

The last reason was ***forces from external threats***. This was not as crucial as the first reason, windows of opportunities. This was because TFEs were more concerned with *windows of opportunity* in determining alliance timing. During the introductory and growth period, the firms concentrated on taking advantage rather than risk averting. Fuether, as the economic condition in that period had been prosperous, all TFEs, even inferior ones, remained profitable. Thus, not many TFEs had to hurriedly make alliances with unfavourable contracts forced by the external threats. In this respect, there were only some weak TFEs, driven by serious threats and survival reasons, which must arrange their alliance in an unfavourable timing.

13.5.1.10 the alliance timing associated with the industry attractiveness

With regard to the hypotheses associated with alliance timing, the tenth hypothesis involved ***industry attractiveness***. TFEs preferred timing when the Thai financial industry was attractive to foreign partners. In particular, they focused heavily upon demand conditions, long-term growth prospects of the industry, and government support. The abnormal return and high potential profitability of the Thai financial industry significantly attracted foreign investors to participate although the industry still had weaknesses with respect to infrastructure, high volatility, and intense competition.

13.5.1.11 the alliance timing associated with the relative competitive positions

The last, eleventh, hypothesis was related to ***the relative competitive positions***. In general, companies were likely to develop cross-border alliances when their overall competitive conditions were relatively strong due to favourable bargaining power. However, many western alliances were established when there were some operational problems, which needed help from foreign counterparts to correct. In the case of TFEs, the majority of them must ensure that their overall conditions were relatively competitive and had no serious operational problems. This was because TFEs themselves were always considered relatively weak, compared with foreign brokers. If they chose to establish their collaboration when there were some serious problems, this would deteriorate their negotiating power and make them lose opportunities in gaining expected benefits. Eventually, their alliances might not achieve the opportunistic objectives of alliance development.

So far, the performances of TFEs' cross border alliances were satisfactory (up to the middle of 1997). This was due to the mutual benefits offered to each other in the co-operation. In particular, the strong emphasis was on the character, contributions, and sincerity of foreign partners. The mutual benefits, reciprocal contributions, and equal and satisfied terms of collaborative contracts were likely to make alliances successful. The termination rate was insignificant. Most of the terminated alliances had problems with respect to unsatisfactory performance. Also, both partners could not stabilise their co-operation due to conflicts of interest, insincerity and opportunistic relationships, and unfair benefits and responsibility allotment.

13.6 Comparison with previous research

It can be seen that where some of the major results of this research are similar and consistent with the previous extensive literature in international strategic alliance. However, many special features of this study make it different from prior research. The distinctive characteristics are as follows. First of all, this research primarily involves international strategic alliances in Thailand, one of the increasingly important emerging economies of the world. Its economic and political conditions are unique and very much different from those of other countries, especially Western and developed countries. As research on the topic of international strategic alliances in South-East Asia and Indo-China region is relatively rare, this study of international strategic alliances in the Asian region certainly adds value to our knowledge of international strategic alliances based on practise in developed or Western countries.

The focus of this research in the Thai financial industry enriches the distinctive characteristic of the study as the financial industry in Thailand has been gaining momentum especially in the face of globalisation. It is dynamic and in a transition period from domestic to global perspective. Moreover, as one of the service sectors, the financial industry contains many special features which make it substantially different from manufacturing industry. For this reason, strategic decision making in the financial industry is greatly different from and more complex than other industries. This study of international strategic alliances in the financial industry therefore fills a gap in existing literature which mainly offers the results of studies of the manufacturing sector.

Another major point drawn from this research is the fundamental strategic thinking of TFEs' executives in the formation process of international strategic alliance. Although the study suggests that TFEs pay attention to both uncertainty avoidance and opportunistic motives, it seems that TFEs tend to focus more on opportunistic and benefit-oriented motives than risk-avoidance motives. This tendency can be attributed to the attractiveness and high growth rate of the Thai financial industry in the period before TFEs formed international strategic alliances. In such a highly dynamic industry, the reduction of business uncertainties also drives TFEs to form alliance with foreign partners in order to deal with future uncertainties. However, most executives of TFEs regard risk and uncertainties as unavoidable issues in the financial industry, particularly in various emerging markets.

Further, the opportunistic behaviour in the formation of international strategic alliances in the Thai financial market can be explained by the attributes of TFEs' executives. In this respect, the attributes of TFEs' executives play an important role in the formation process of strategic alliances. The average age of high-level executives in the financial industry is relatively lower than those of other industries. Also, most of them have been highly educated abroad such as in America and European countries. The career success at a very young age and the global vision of these executives has contributed to the highly aggressive and opportunistic behaviour found in the formation process of international alliances. As these executives have never experienced major economic crisis, the importance of business uncertainties has been somewhat downplayed in their decision making.

Protective governmental policies in the financial industry have also played a major part in international strategic alliances. Like many emerging financial markets, the Thai government has tried to use some restrictive financial measures to protect the domestic industry from foreign penetration. Such extensive protection by government enabled Thai financial firms to enjoy high returns from the market and have the power to negotiate for better terms in their alliance agreements. Also, the protective governmental policies sometimes enabled them to afford to pay less attention to the risk and uncertainty factor in the formation process of strategic alliances. However, TFEs have started to realise the importance of risk and uncertainties, particularly in developing and emerging markets. This is because such protective measures and policies are bound to be relaxed at any time in the wake of globalisation. In this respect, every country, including Thailand, is exposed to a financial and economic liberalisation. This tendency has drived TFEs to pay more attention to risk and uncertainties in the industry rather than concentrating only on the benefits of international alliances.

Cultural factors in TFEs also provide an interesting issue in the establishment of international strategic alliances in Thai financial markets. Chinese influence and styles of management have played a crucial role in Thai business as Chinese people make up the lion's share of influential business people in Thailand. Moreover, most TFEs are in the holding groups of large and powerful commercial banks. These banks set up financial companies and hold a large stake in these firms. Therefore, the power in decision making in these firms is mainly in the hands of the major shareholders. The motives, partner selection, and timing of international strategic alliances are also no exception. These aspects are bound by the approval of major shareholders of TFEs which sometimes seem to be of more concern than economic reasons. The business and personal connections among executives then play an important role in this context. This feature is consistent with the culture of Thai business customs that are mainly based on personal relationships. This is greatly different from Western business culture that focuses more on economic considerations than personal rapport.

Apart from Chinese business attributes, Thai personal characteristics also influence the formation process of international strategic alliances. Thai people are easy-going and tend to avoid conflicts with others, including foreigners. This is because of open-minded and non-discriminatory character of Thai people. Therefore, Thailand has never had any serious problems about minority, racism, and religious conflicts. This special feature of the Thai people is behind their belief that differences in individual attributes and pure culture among partners from different countries are not a major hindrance to international collaboration.

Characteristics of the TFEs themselves are also crucial. As TFEs are in highly dynamic industry and in a transition period exposed to many globalising forces, to maintain their business and adjust themselves to such globalising forces, TFEs have to improve their systems, skills and other aspects of infrastructure. In this respect, TFEs themselves could not create such assets and resources in a short period of time. Therefore, the movement towards extensive international strategic alliances in TFEs is a response to the shortage of the assets and resources needed for the rapid development of these companies. As suggested by the findings of this study, there is no doubt that the immediate contributions of foreign partners, in terms of strategic resources, are highly important throughout the formation of TFEs' cross-border alliances.

The analysis of this study can not be completed unless the globalisation factor is taken into account. The establishment of international strategic alliances, particularly in emerging markets, is largely affected by the international and globalisation process. As the Thai economy is newly open to the international economy, it is substantially affected by many uncontrollable globalising forces, compared to other highly developed markets. Moreover, the Thai financial industry, which is more complex and more exposed to globalisation, is very sensitive to the globalisation process, compared to other industries. The structure of the financial industry, such as investment and demand patterns, then largely changes due to the existence of foreign participation and manipulation. In this respect, the industry also is subject to an increasing and intense competition form foreigners. Hence, the formation of international strategic alliances can be seen as a necessary response to the globalisation process. Although globalisation poses a big threat to the financial industry, it also can bring about major development and advancement in the industry, especially for firms that can realise and capture the business opportunities resulting from the globalisation process.

From these major points of this study, it can be seen that the findings of this research offer many interesting and insightful contributions to the existing literature on international strategic alliances. This can be attributable to various special features of this study, which offer interesting and distinct results and help enrich and fill gaps in the existing literature. Not only academics but also investors and business people will benefit from this research as it provides some insightful observation of international strategic alliances in the emerging and developing markets in an Asian country, Thailand, in the wake of a rapidly changing world order.

13.7 Current situation of the financial industry of Thailand

13.7.1 The chronology of the road to Thailand's financial crisis

After a decade of great economic success, aided by a strong track record of prudent macroeconomic policies, Thailand's economic situation started to deteriorate progressively in recent years. From early 1997, Thailand encountered a series of adverse developments, including a slowdown in exports and GDP growth, the difficulties in the property sector, a fall in the stock market, and a weakness of the fiscal position (IMF, 1997). The financial sector which once drew the country's best and brightest with highly satisfactory gains to participants led Thailand to the crisis. This sector began to grow rapidly in the early 1990s due to the liberalisation of international capital inflows resulting from the implementation of the Bangkok International Banking Facilities (BIBF). The real origin of the crisis first began with several financial companies. It spread throughout the financial industry due to incompetent and misleading policies to protect some groups of executives and shareholders of the ailing finance companies. Such financial problems then enlarged their extent to the whole finance sector, moving to the banking sector, and, eventually, causing a serious liquidity crisis undermining the entire economy. More importantly, the crisis continued to become the financial turmoil of a number of Asian countries, including Indonesia, South Korea, the Philippines, and Malaysia.

In the first stage, the root cause of the crisis seemed to stem from Thailand' excessive borrowing by the private sector. This effect had been multiplied by misguided policies, particularly those from the Bank of Thailand (Bangkok Post (a), 1997). The reasons why the

Thai private sector's indebtedness had been very high could be described as follows. First, Thai capitalism had been based largely on family business, even large or listed firms. When the economy grew, these families did not want to lose their ownership control over the companies. However, they did not have adequate capital to support their business's growth. Therefore, they had to borrow a huge amount of money to meet their needs for capital. In particular, as there has been a BIBF (Bangkok International banking Facilities) project over the past several years, these companies then easily borrowed cheaper money from abroad regardless of exchange rate risks.

In addition, the financial institutions had provided a considerable amount of loans which exceeded the value of their collateral. In particular, during the period of economic boom in the years of 1988-1995, a vast amount of money had been invested in the property sector which had extremely inflated their prices (Bangkok Post (a), 1997). However, the property sector began to collapse, as there was an oversupply of housing (Bangkok (b), 1997). The slump in the property market caused developers' cashflow troubles and defaults on interest payments. The majority of the loans became "non-performing loans". As a consequence, many finance companies and some small banks confronted serious liquidity problems, resulting in the deterioration of the Thai economy as a whole.

Also, there were many finance companies that had invested heavily in stocks and provided excessive credits for their clients to purchase stocks (The Nation, 1997). When the stock market declined or crashed, these companies suffered from both the loss in their portfolio investment and the bad debts of their margin loans.

Further, the problems had been exacerbated by the mistakes of authorities in policy formulation. The Bank of Thailand decided to retain a fixed exchange rate regime alongside Thailand's open capital account (Bangkok Post (a), 1997). With regard to the fixed exchange rate system and the liberalisation policy, foreign capital flowed to Thailand in order to profit from the interest spreads. The baht started to appreciate and seemed to have been overvalued since then.

The troubles of the Bangkok Bank of Commerce (BBC), a small commercial bank in Thailand, seemed to be the first signal of a series of Thailand's financial disasters. The bank began to be financially ailing in 1994. The problems had been expanded until the BOT had to pour about $7 million to support its operations. This resulted in widespread rumours with respect to the instability of the financial system (Bangkok Post (c), 1997).

Afterwards, the collapsed merger between Thai Danu Bank and Finance One caused more serious problems. Finance One, one of the largest finance companies in Thailand, encountered serious liquidity problems. Originally, the Bank of Thailand endeavoured to find a resolution in order to heal such a symptom. The first move initiated by the Bank of Thailand was encouraging a merger between Finance One and Thai Danu Bank. The Bank of Thailand hoped the merger to be an exemplar for a series of consolidations among other local financial institutions. Unfortunately, the merger plan between Thai Danu Bank and Finance One collapsed due to the greatly serious liquidity problems of Finance One (Bangkok Post (d), 1997). As a consequence, the confidence of local and foreign investors in the Thai financial system started to deteriorate.

About one month later, the Bank of Thailand announced the suspension of 16 financial institutions and ordered them either to re-capitalise or be absorbed by healthy finance firms (Table 2.4). Otherwise, their licences would be revoked. These firms were announced to be limited to recalling outstanding debts from clients, returning collateral, and performing sales orders for customers in paying back margin loans and receiving funds for new share subscriptions. Further, their borrowings from the central bank's Financial Rehabilitation Fund had exceeded 40% of the outstanding deposits (FRA, 1997). At first, the 16 finance and securities companies remained suspended for at least 60 days, as they had to submit their financial rehabilitation plan to the authorities. The targets for the rehabilitation of the 16 suspended firms were to strengthen themselves, build up public confidence for preventing cashing in their promissory notes, and revive foreign investors' confidence (The Nation (b), 1997).

Indeed, the Bank of Thailand first wished the 16 firms to merge themselves with core financial institutions or seeks financially strong partners to acquire their majority stakes. All the rehabilitation plans of the companies were to be submitted in 15 days and the authorities would consider the possibility and effectiveness of the plans. Nearly all of the plans seemed to be revolved around seeking financially strong partners and boosting capital. Most of the troubled financial firms planned to be taken over by or merge with healthy ones, including foreign partners and another four core Thai companies recommended by the Bank of Thailand. Apart from Krungthai Thanakit Plc., the other four core enterprises consisted of Phatra Thanakit Plc., Nava Thanakit Finance and Securities Plc., National Finance and Securities Plc., and Dhana Siam Finance and Securities Plc.

Unfortunately, as the rehabilitating activities of the 16 ailing companies had not been accomplished, the Thai financial system dramatically changed again. As the forces from the real market's mechanisms, the Bank of Thailand (BOT) decided to play the last card to help break the economic deadlock as the attacks on the baht currency continued to intensify. The baht, then, was floated on July 2, 1997 after the BOT had spent $ 6 billion over recent months in order to defend the currency against the speculators (The Nation (c), 1997). There was a plunge in the baht's value to 30.30 against the US dollar, compared with about 26 baht earlier. The immediate negative impact was on the external short-term loans of the large corporations of Thailand. Thailand's foreign debt was about $87 billion, 80% held by the private sector (Bank of Thailand, 1997). Thus, this strong remedy potentially shocked numerous large Thai companies and forced them to go bankrupt. On the other hand, the positive impacts were expected to happen in the balance of trade and balance of payments of Thailand. As the prices for imported goods would be sharply increased and those of exported goods were dramatically reduced, the balance of trade was supposed to improve. Besides, the interest rate remained high so as to prevent capital outflows and attract foreign capital to be injected to Thailand for seizing higher investment returns. The effective baht float measure would result in the recovery of exports. Foreign investment, both portfolio and direct investment, would flow in, boosting liquidity. As a consequence, the local interest rate would drop. Eventually, Thailand's economy would be stable in the long term. However, the financial crisis in Thailand still continued as there was no positive sign of the financial economic recovery. In early August 1997, the balance of payments of Thailand became more vulnerable. Therefore, the Thai government decided to enter a 34-month rehabilitation programme of the IMF (International Monetary Fund).

The BOT further suspended 42 more finance and securities companies as a part of a deal to secure economic aid from the International Monetary Fund on August 5, 1997 (Table 2.4). Again, the 42 suspended companies were granted 60 days to prepare rehabilitation plans and submit them to the authorities. These 42 firms was suspended due to their imminent insolvency, the magnitude of their liquidity problem and the size of their non-performing loans (Bangkok Post (e), 1997). Noticeably, there also was another implicit criterion that these firms had borrowed money from the Financial Institutions Rehabilitation and Development Fund more than 100% of their own capital base. The fund had already lent them baht 430 billion and ran out of money (The Bank of Thailand, 1997). Yet, the depositors and creditors of the 42 suspended firms were also fully protected by the government through two options. First, the creditors could swap promissory notes and certificates of deposits at the government's Krung Thai Bank with an interest rate of 2% and terms of five years (Bangkok Post (e), 1997). Alternatively, they were able to take an equity stake in the shares of a new ***"good "*** bank that would be established in the first quarter of 1998. The new good bank, namely "Ratanasin Bank", was founded by pooling the suspended firms' good quality assets.

The number of suspended finance firms totalled 58 companies. There were the remaining 33 healthy finance houses and the country's 15 commercial banks. The Financial Restructuring Authority (FRA) and the Asset Management Corporation (AMC) were established in order to oversee and tackle the problems in the financial industry. The FRA was in charge of the assessment of each of the 58 suspended firms in order to consider the possibility of their rehabilitation plan and decide whether they would be reopened, merged, or closed.

Apart from the suspension, the IMF imposed six conditions in extending its rescue package. These included a clean-up of the finance industry, the increase of taxes, a balanced budget, an end of subsidies to state enterprises, tight monetary policies, and the maintenance of the current foreign exchange system. Thailand moved to increase VAT (Value Added Taxes) from 7% to 10%, which was anticipated to bring in baht 60 billion in annual state revenue (Bangkok Post (e), 1997). Besides, many plans with respect to state enterprise's privatisation were under study and various utilities charges increased in response to the guidelines of the IMF.

At the end of November 1997, the FRA finalised the evaluation of the suspended firms' rehabilitation plans. The FRA employed the strict criteria with respect to maintaining a capital-to-risk ratio of 15% for the first year, 12% for the second year, and 10% for the third year. Also, the FRA must ascertain that the suspended firms would have sufficient access to credit to provide cash in the event of deposit runs and have a firm timeline for returning outstanding loans to the Financial Institutions Development fund and other creditors (FRA, 1997).

Because of the strict criteria, the results of the assessment came out that only two out of 58 suspended companies could be reopened. This was partly due to difficulties to merge or consolidate themselves resulting from the pride of the firms' major owners and the strong competitive corporate culture in the financial sector. As a consequence, there was not enough possibility to reverse the financial positions of these firms. The FRA, then, appointed special managers, who were mandated to manage the remaining companies with the aim of preserving and maximising the value of the remaining assets on behalf of the depositors and creditors as well as overseeing the classification and transfer of assets (FRA, 1997). The major criterion for asset classification was adapted from the strict rules of the World Bank. The good assets are those with interest accrued for no longer than six months. The good assets were transferred into a new financial institution, a new commercial bank, while bad assets were sold to the Asset Management Corporation for gradual market liquidation (The Ministry of Finance, 1997). The "new good bank" was established with an initial registered capital of baht 7.5 billion ($139 million). Its shareholders came from its major creditors of the 56 collapsed finance companies. Meanwhile, the "bad bank" was worth approximately baht 720 billion ($13.5 billion) and was managed by the AMC.

After the closure of 56 suspended firms, great attention must be paid to the survival finance companies and banks, as Thailand could not afford to deteriorate any more. The special and strict rules were launched to closely regulate and monitor the performances of the remaining financial institutions. The Bank of Thailand suggested them to quickly raise their capital to at least baht 5 billion, in anticipation of future liberalisation and higher non-performing loans stemming from the economic slump (Bangkok Post (f), 1997).

The medium to long term strategies of Thailand are aimed at restoring confidence and economic stability of the country and laying the strong foundation to facilitate future sustainable growth. Reducing the external current account deficit to a rate of 3% of GDP by increasing exports, promoting local savings, is necessary. The strict control over the monetary aggregates includes ending the recent practice of unconditional financial support to insolvent companies, the development of further monetary policy instruments, and improved public disclosure of key economic information (IMF, 1997). Also, the structural adjustment to the higher technology export industry and the privatisation of state enterprises are highly required to strengthen the country's competitiveness.

The future prospect of Thailand's economy are considered unclear, particularly the financial sector. It seems to further deteriorate because of the liquidity crisis, shrinking domestic demand, and reduced foreign confidence. Nevertheless, there are some positive signs to help alleviate the economic problems. For example, the new government is politically stable and its economic team is performing well in restructuring the financial sector. Thai exports have increased due to the depreciation of the baht and are expected to lead the financial market. Finally, the financial bailout plan and recommendations from the IMF seem to be helpful in order to revive the financial system in Thailand. The future of the Thai financial industry is being more exposed and connected to regional and global financial communities. The cross-border co-operative relationships, in any form including strategic alliances, between Thai financial companies and foreign houses seem to be more varied, complicated, and challenging.

13.7.2 A brief analysis of the origin of the recent economic downturn and financial turmoil

From the analytical point of view, the origin of the economic and financial crisis in Thailand seems to result from an "***imbalance***" in the economic development of Thailand. The Thai economy has been one of the fastest growing economies in the world over the past several decades. All economic sectors have developed rapidly while its various infrastructures and fundamentals could have not been adequately improved in order to facilitate and deal with the increased complexity of the economy. Regarding its structure, the Thai economy has relied heavily upon the financial sector and property development, as these two sectors have been two of the most dynamically growing industries of the country. These two sectors are prone to be the centre of the Thai economy and be the source of the prosperity of the whole system.

Initially, the real estate and property development industry is highly likely to spark the economic problem as the sector consumes the majority of financial capital in the financial system. The substantial amount of capital has been injected into the industry via the financial intermediaries. When the property sector confronts the problem with respect to demand shrinkage, the buildings constructed cannot be exchanged into money. This subsequently causes financial problems for their debtors, various financial institutions. Thus, public confidence, including that of local and foreign investors, in the finance institutions has started to deteriorate since then.

As a matter of fact, the liquidity problem of the financial institutions also results from the mismanagement practices of the public authorities. Significant amounts of loans become non-performing due to inappropriate credit extension policies. The financial institutions pay most attention to the collateral for credit approval and always overvalue the collateral. In addition, land prices have been significantly inflated as a result of past economic growth. Thus, the real values of loan collateral are often lower than the amount of loans. When the borrowers are not able to continue their businesses and cannot pay back principal and interest, the financial institutions cannot sell the collateral to compensate for their loans. Besides, the financial regulations and supervision systems in Thailand are not well-developed and efficient enough to handle the complexity of the drastically growing financial economy. Relevant public authorities remain inadequately responsive to the illegal activities in the financial markets. The majority of banks and finance companies lend to the business organisations under the same groups, including holding companies, subsidiaries, and partnerships. This is because, by their nature, Thai financial institutions always act as "parent companies" of numerous enterprises. Therefore, the credit approval standards and procedures are not strictly applied to these companies. The troubles arise as these companies face financial difficulties and cannot repay their overdue debts. In most of the cases, the financial institutions still keep on feeding cash into the companies so as to reverse the financial positions. This seriously causes a number of following financial problems of the financial institutions and the whole economic system.

Further, the fixed exchange rate regime that Thailand had employed induced more severe problems, as the exchange rate cannot signal the real economic situation to private sector. When the liquidity tightens, the private sector mobilises more funds from abroad due to the relatively low interest rates, regardless of exchange rate risk. The trade and current account deficit, then, intensifies to be approximately 8 per cent of GDP. However, the Thai business sector still enjoys the high liquidity, resulting from foreign capital inflows in the form of portfolio investment and loans. Besides, the Bangkok International Banking Facilities (BIBF) programme multiplies capability of the private sector in mobilising funds from abroad. The fixed exchange rate does not reflect the real situation of the Thai financial economy. The Thai baht is externally overvalued but there is still no concern about the "real" financial position of the country.

In addition, by considering the key economic indicators, Thailand has gradually lost its business competitiveness recently. Export growth has decreased, particularly in the labour-intensive industries such as textiles and garments. The tourism industry has also begun to slow down due to environmental exploitations and inefficient safety measures. This widens the current account deficit gap of the country. The various economic fundamentals have been substantially weakened. Until the real economic situation exists, the exchange rate regime must be changed from fixed to floating rate system. This terminally jeopardises business corporations that mobilise funds from abroad, particularly many finance and property companies. The companies encounter severe liquidity problems while foreign lenders start losing confidence in the Thai economy and need to pull their money back. Numerous firms go bankrupt. A number of finance companies are in serious trouble and the government has to intervene in their operations. Furthermore, the financial problems are widely spread to other Asian countries. The currency depreciation and financial turmoil become the regional phenomena. Various Asian countries then are now struggling to recover foreign confidence and ease their current liquidity problems in order to recover from the financial crisis.

In conclusion, the Thai financial market is considered to be a "***relatively new***" and "***emerging***" market, compared with that of foreign countries. Though it has been developed for several decades, it remains in great need of significant improvement and adjustment. From its impressive economic performances over the past years, this promotes the Thai financial industry to be attractive to foreign institutional investors. During this period, the international alliance development of TFEs becomes the predominant phenomena in the industry. However, the recent financial turmoil, both in Thailand and the Asian region, also causes devastating impacts on the industry and its participants. Various financial measures have been implemented in order to resolve the difficulties, including application for the bailout package of the IMF (International Monetary Fund). These measures start to gradually affect the Thai economy. Therefore, the financial economy of Thailand has reached the important turning point in its history and is anticipated to enter the new era of the sustainable development.

13.7.3 The impacts of the current financial crisis on the international strategic alliances in the Thai financial industry: analytical perspectives

The recent financial turmoil has resulted in direct negative effects on the overall economic conditions of the country, particularly the financial industry. The financial position of Thailand has become extremely weak and unstable. Also, the entire financial industry has become increasingly vulnerable to global financial markets. Foreign and public confidence in the industry has deteriorated and the overall competitiveness of the Thai financial industry has considerably decreased. The immediate solution to ease and tackle the problems is a request for help from foreigners.

Thailand then is in great need of contributions from foreign firms in terms of capital, skills, expertise, and client base. To quickly recover from the country's financial crisis, financial resources and competencies from the local enterprises seem to be inadequate to have the country back in the right track again. Stable and long-term commitment from wealthy foreign firms is believed to help gain back public confidence and to rejuvenate the country's financial positions. In this respect, it could be implied that the existing financial turmoil has worsened the macro and financial economics of Thailand and forced all participants in the financial industry to realise the importance and necessity of permanent relationships with foreign firms more than ever.

Specifically, **the financial and competitive statuses of TFEs themselves** have been jeopardised by the crisis. More than half of TFEs have been merged with each other to become commercial banks in order to strengthen their competitive positions and survive the crisis. In such cases, the international alliances of these TFEs have been automatically terminated. The remaining TFEs, although they have been proved healthy by the SEC

(Securities and Exchange Commission) and the Bank of Thailand, are also badly affected and highly vulnerable. This is due to the fatal effects of one of the worst economic crises in Thailand's history. Survival and continual stability of the companies are of prime concern in this respect.

As already mentioned, most TFEs are in deep trouble. There is no chance to ask for help from domestic finance companies, even from commercial banks which have been TFEs' major shareholders and resource providers. The remaining TFEs then must turn to their foreign strategic partners and request a huge amount of immediate capital and resources. This is because TFEs have been required to immediately increase their registered and paid-up capital. This is aimed at easing their liquidity problems and writing off non-performing loans (NPL). By this solution, the companies are expected to continue their business and gradually pull themselves out of the trouble. In addition, alliances with recognisable foreign financial institutions can help gain credibility and public confidence, which is one of the most critical factors to keep the business running.

However, the solution requires a huge amount of capital and commitment from foreign partners who also do not want to take risks themselves. Therefore, there must be sufficient incentives for foreign firms. The regular non-equity or minority alliance relationships may not be enough in this respect. Foreign firms wish to ensure that there is considerable long-term compensation worth their risky investment in the TFEs. Most of the TFEs then start to offer foreign firms greater advantages, in terms of managerial and ownership control. TFEs, which have already formalised their relationships with foreign partners, tend to strengthen their collaborations and are highly likely to allow the foreign firms to take a majority stake in their companies. In this case, the foreign firms could upgrade themselves from strategic partners to be major shareholders. The alliance relationship would become the "take over" in this respect. In cases when TFEs have never tied up with any foreign firms, the relationships are likely to start with acquisition or taking over rather than alliance co-operation as in the past. This is to attract foreign firms and ensure that they will have enough power to monitor and control their investment. This also can guarantee the long-term return of foreign firms when the Thai financial industry recovers in the future. In return, the TFE are able to survive and continue their operations. Although their previous shareholders will lose their power of control, their businesses remain in the industry and will not be liquidated.

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With respect to the regulations concerning the relationships between TFEs and foreign firms, it is evident that the regulations have been dramatically affected by the financial crisis. Before the crisis, the regulators, SEC (Securities and Exchange Commission) and the Bank of Thailand, usually exercise regulatory power and launch strict rules to closely monitor the relationships. This is to prevent TFEs from foreign partners' domination and wish the TFEs to achieve the most possible benefits. However, after the financial crisis happened, the positive business atmosphere turn out to be worse than ever anticipated. Survival becomes the first priority for TFEs. The relevant regulations must be relaxed in order to facilitate negotiation between TFEs and foreign firms. In this case, the regulators can not focus heavily on the benefits for TFEs. The interests of foreign firms must also be significantly taken into consideration. The major rules associated with protection of majority ownership of Thai partners have to be lifted. The regulations on technology transfer and TFEs' long-term benefits from cross-border partnerships are also relaxed. More flexible rules are applied and various conditions of cross-border relationships are considered case-by-case. This reflects the increased bargaining power of foreigners.

Further, the regulators must change their roles to become more supportive in order to promote the establishment of permanent cross-border linkages. They are more likely to play "facilitating roles" in order to encourage TFEs to ally or merge themselves with foreign financial firms. However, as the present situation is considered to be the difficult time foe the industry and the whole country, foreign firms seem to hesitate to start intensive relationships with TFEs. The regulators sometimes have to be a negotiator or a match-maker for TFEs so as to give more confidence to foreign firms and to increase more opportunities to complete alliance deals.

Regarding foreign firms, it is clear that the recent financial crisis of Thailand has turned out to provide huge business opportunities for foreigners, particularly those from western countries. The devastating impacts of the crisis automatically force TFEs to depend heavily upon foreign partners. The firms need immediate help and considerable contributions from foreigners in order to handle the financial hardship. This widens the windows of opportunities for foreign firms and results in their stronger negotiating power. As both public and private sectors realise that permanent and intensive relationships with wealthy foreign partners are the key solution for Thailand's financial economic recovery, the financial industry has been more liberalized by the Thai government. Foreign firms then have more power of control over the industry than ever before.

In general, the major aim of foreign firms is to have a long-term foothold and a business base in Thailand. From the impacts of the crisis, foreign firms are able to accomplish their purpose more easily and with less amount of effort. In this respect, they do not need establish their own branches or subsidiaries. They also can acquire domestic business networks and local expertise immediately. Operational risks and an amount of initial investment are substantially reduced. However, the crisis also negatively affects the overall prospects of the financial industry. The industry and the country as a whole remain in trouble and have to pass difficult stages of rejuvenation and correction. Foreign firms then have to turn their attention to focus on medium and long-term benefits instead. Nonetheless, the Thai economy has started to show positive signs of recovery and is anticipated to recover in a couple of years. Foreign firms can expect to obtain a huge amount of benefits in the future when the business cycle is in the rising stage again.

Further, as foreign firms are in a favourable bargaining position, compared with TFEs, they are able to select types of international co-operation that can offer them the most long-term benefits. Foreign firms are highly likely to acquire the majority of control and take over TFEs, rather than engage in alliances or partnerships. This situation is indeed favourable to foreign firms as the market prices of TFE's stock are relatively low. Furthermore, they still have considerable benefits from the depreciation of the Thai currency. Therefore, the acquisition in this case is highly cost justified.

However, there are some foreign financial firms that have been badly affected by the devastating impacts, particularly those whose main operations are in Asian region. In this case, the firms have no available resources to acquire or help Thai partners. Their first priority is their own survival. Therefore, the termination of cross-border alliances between TFEs and these foreign firms are likely to take place.

13.8 Areas of future development.

13.8.1 The transferability of the results to other business sectors

The international alliance formation frameworks obtained from this study are expected to be the first model for other Thai business sectors. The ideas developed are applicable to other industries in order to help them achieve prosperity in their businesses. The overall frameworks of the results also become prominent examples for other Thai business sectors in widening their windows of opportunities abroad. The potential business sectors in this case should be the industries that are exposed to foreign markets and competition. In addition, the industries should be in the satisfactory stage of development in order to efficiently deal with and attract foreign partners. For example, the telecommunication and export industries are suitable Thai business sectors for the arrangement of international alliances. This is because these industries have been considerably developed during the past decade and have shown relatively impressive performance, compared with other business sectors in Thailand. The growing market and government support of the industries also contribute to their high potential and attractiveness to foreign firms. Furthermore, as the industries remain in the stage of development and improvement, they are in significant need of huge contributions from advanced foreign firms in terms of skills, competencies, technology, and distribution channels.

However, although the results show that international alliances offer a considerable amount of benefits, business opportunities, and capability advancement, the cross-border co-operation also causes possible disadvantages. TFEs' dependency on foreign partners' resources and contributions result in domination from foreign partners. Furthermore, cross-border alliances provide TFEs with high exposure and vulnerability to the foreign environment. This brings warning messages to other industries that they have to make a trade off between potential advantages and possible losses from international alliances.

Further, the results of this study clearly demonstrate the attitudes and strategic thoughts of TFEs executives with respect to cross-border alliance formation. The strengths and weaknesses of the ideas and outcomes of the process are also presented. This helps improve the effectiveness of the transferability and applicability process of the frameworks to other industries. In this respect, other business sectors can learn from TFEs' experiences and better apply the ideas to suit their business environment. The strengths of TFEs' strategic thoughts, such as long-term and sustainable advantage improvement from alliances, are likely to be adopted. Meanwhile, the weaknesses proved unsuitable for future capability advancement, including a focus on superficial and immediate benefits, should be applied with caution. This is because international alliance co-operation is new to Thailand and the Thai financial industry is considered to be the very first example in the country. TFEs' trial and error steps then are inevitable and should be taken into consideration for the improvement of other industries' cross-border alliances.

In detail, TFEs' international alliances provide applicable ideas to other business sectors as follows. The process of alliance establishment can be adopted. As TFEs' international alliances are also influenced by Thai cultural practices, the major concepts of the alliances should be transferable to other Thai business sectors. Initially, it starts from the assessment of alliance motives and needs. Major factors to be taken into consideration include internal factors of the companies themselves, economic and political factors, industry factors, and international factors. Strategic reasons behind alliance motives should be reconsidered for long-term and sustainable competitive advantages. The areas, scope, and duration of the co-operation have to respond to the real alliance needs in order to accomplish their alliance objectives. The partner seeking and selection process is also likely to be adopted. The methods of seeking foreign partners, by using personal connections of shareholders and executives, seems suitable for and comfortable with Thai business customs. Frameworks of partner selection criteria which focus on complementary competencies and strategic compatibility, should be applicable. The factors influencing the effectiveness of the selection process also ought to be taken into consideration. Further, strategic reasons and signals for assessing alliance timing could be employed in order to achieve firm's favourable positions and expected benefits from alliance establishment.

Moreover, the research findings shed light on the performance of TFEs' international co-operation, which could provide directions for subsequent alliances. The reasons for unsuccessful co-operation and termination are presented. Critical points of the alliances, such as conflicts of interests, technology transfer, and debates over control, should be raised as precautions for future alliance development. The needs for alliance improvement are also discussed in detail so as to enhance the efficiency of international alliances of other Thai business sectors in the future.

Nonetheless, the transferability of TFEs' international alliance frameworks to other business sectors should consider the following factors. First, the stages of development of other industries are of important concern. Other industries that are not yet exposed to international community and do not have a high degree of internationalisation should delay the deployment of the strategy. It may cause more potential losses than expected benefits. Second, the unique characteristics of the financial industry itself that are significantly different from other industries must be taken into account. For example, the structure of the market, competitive conditions, infrastructure and facilities, managerial styles of the industry, attributes of the industry's executives as well as government support and protections should be carefully considered and analysed before application of the frameworks into other business sectors. Third, the different natures of service and manufacturing industries, in terms of the technology transfer process, production procedures, and operational systems, also require particular attention in this respect. Fourth, as the research focuses on the introductory and growth stage of the business cycle, the application of the results in other stages, such as mature or declining phases, should be carefully carried out. More importantly, the dynamically changing business environment surrounding the financial and other industries also affects transferability. All the concepts should be re-considered and applied to best suit each set of environmental requirements.

13.8.2 The transferability of the results to other countries

The results of this study can also be transferred to other countries. In particular, they can be an example and database for other developing and emerging countries in international co-operation establishment including Lain-American countries, Indo-Chinese countries, and various Asian countries such as Indonesia and the Philippines. This is because these countries have similar economic environment conditions. The dynamic and changing situations in the countries are also not much different from those of Thailand. In addition, like Thailand, these countries are in the stage of development and need a huge amount of resources and contributions in order to further their advancement. The exposure to foreign markets and competition has also been vastly increased due to the intense globalisation effect. Moreover, they have been forced by various international organisations and agreements to liberalise their markets and relax their protective regulations. This makes developing and emerging countries more than ever connected to foreign and global communities. International alliances then are increasingly important for the countries in order to seize incremental opportunities and handle threats resulting from the globalising forces.

The international alliance frameworks developed from this study can be used as guidelines for other countries. Major concepts and ideas of the frameworks could be adapted in order to create the most suitable and beneficial cross-border alliances. The origin and the major patterns of co-operation development are useful to follow. The model for assessing the underlying needs and determining the directions of alliances could be adapted in order to find out strategic motives. The comparisons between major growth strategies, including mergers and acquisitions and internal growth strategies, should be critically analysed and discussed. In this respect, the specific economic conditions in each industry of a particular country must be taken into consideration to discover reasons behind alliance establishment. The major motivation framework of this study, including defensive and offensive approaches as well as market and resources-oriented ones, also provides directions for the countries' alliances. The important selection criteria and various conditions in the foreign partner seeking process give them practical concepts and procedures to help choose suitable partners. Further, as many developing and emerging countries have less bargaining power than major developed countries, this study offers ideas in selecting the appropriate and fovourable timing for their alliance development. Moreover, the research shows positive and negative aspects of TFEs' international alliances of which the future collaborations of the countries should be aware. Capturing greater business opportunities and gaining long-term capability enhancement are likely to be focused upon. But, the overemphasis on short-term and superficial benefits should be looked at carefully.

As already mentioned, TFEs' international alliance formation is also characterised by Thai cultural factors which are significantly influenced by Chinese business customs. The transferability of the results to Asian and Indo-Chinese countries seem to be easier and more suitable due to cultural closeness. Furthermore, the various economic and political conditions are not very different from those of Thailand. Thus, the conclusions and findings are more applicable to these countries, particularly the neighbouring countries such as Malaysia, Indonesia, and the Philippines.

However, there are significant concerns over the transferability of the research findings to other countries. Apart from the previously mentioned cultural factors, the level of the countries' economic development is of major focuses. Whether the countries' past economic performance, future prospects, and various economic infrastructure making them attractive and ready for international alliances are significant. The political situations of each country are also likely to be significant. The different level of government support and protection to an industry of a particular country means different procedures and ideas in alliance development. The relevant regulations also play important roles in this case. Further, other countries wishing to use the results have to be concerned about the nature of business in the industry to be applied. As the research has been completed in the financial service industry, the application of the results to other manufacturing industries should be carefully treated. Major variables significantly affecting the operation systems and performance of the manufacturing industries must be taken into consideration in this respect. Finally, the impacts of the recent financial crisis on Thailand and other Asian countries have caused dramatic changes in economic conditions in many countries. The level of the impacts is also different among countries. As this research was carried out before the financial crisis occurred, the results should be applied with caution. Some concepts and ideas have to be adjusted in response to the current economic atmosphere surrounding each industry and country. In this case, this research will help other countries form efficient international alliances to suit their economic requirements and result in successful collaboration.

13.8.3 Additional areas for future research

The areas of future research which could be developed from the findings of this study are as follows. As this research focuses on the introductory and growth stages of cross-border alliances of Thai financial enterprises, further research could concentrate on the maturity and declining stages of the industry would be interesting. In order to obtain the complete picture of cross-border alliance formation of TFEs, a comparative study of different development stages of the Thai financial industry could be initiated.

Further, the management and control phases of TFEs' cross-border alliances are also of important consideration for the next period of study. The strategic ways to manage the alliances and control their performance as well as the key success factors of the alliances deserve significant attention for future investigation. The human aspect is also imperative as it is considered one of the most critical factors of TFEs' international alliances. The study emphasising the human aspect and its impacts on the alliance management process would be intriguing. Moreover, the results and frameworks from this thesis can be employed as a database for the areas associated with international co-operative strategies in other Asian and emerging countries. The scope of the study may be expanded to cover the whole in this area of the South East Asian and Indo China region in order to offer a clearer picture of the issues in the future.

13.9 Concluding Remarks

This study is centred on the formation framework of international strategic alliances of Thai financial enterprises (TFEs). The three major points, including motives, criteria, and timing, of the issue have been investigated. This study looks at the international alliance phenomenon of the Thai financial industry during the introductory and growth period. In this respect, TFEs' cross-border alliances are mainly formed as minority-equity alliances. The major areas of the co-operation involve customer services and securities trading co-operation, investment banking and corporate finance co-operation, and research technique co-operation. The nationalities of TFEs' foreign partners include European, American, Hong Kong, Japanese, and Singaporean companies.

TFEs pay significant attention to both approaches to alliances motives, consisting of defensive and offensive approaches together with market and resource perspective motives. The partner selection criteria most focused on by TFEs include synergy and complementary competencies. They also concentrate on the longevity of their co-operation by regarding the fit and balance of strategic intent as well as operational cultural compatibility as important criteria. Moreover, TFEs prefer to choose the alliance timing when their industry is attractive to foreign partners and when their overall competitive positions are relatively strong. The major reasons influencing timing involve substantial marketing benefits and a significant amount of resources to be transferred from their prospective foreign partners. In addition, the shortage of eligible foreign partners and forces from external threats also affect the timing selection. So far, the performance of TFEs' alliances is satisfactory. However, their alliances remain in significant need of improvement, in terms of technology transfer, fair alliance contracts, communication efficiency, and sincerity and trust among partners.

The frameworks obtained from the research can well represent the international strategic alliances of emerging countries, whose various economic conditions are similar and are being developed towards the globalisation era, particularly in the introductory and growth periods of the industry. Additionally, the results could be used as a database for future business implications and research for business firms with high uncertainty, especially in the Asian nations.

In the next stage of development, TFEs' international strategic alliances would be changed. The alliances would be mainly formed as equity links, including minority-equity and joint venture. Foreign counterparts could have greater access to the Thai financial industry on account of relaxed regulation barriers. In particular, after the financial crisis, most TFEs hardly stay independent as they will be in great need of capital to reverse their financially ailing positions. The TFEs would be mainly taken over by their foreign partners. The tighter relationships, in the form of merger and acquisition, may increasingly appear in the industry. Various strategic thoughts related to alliances should be developed and would be intriguing to study.

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Appendix I

Questionnaire

International Strategic Alliances of Thai Financial Enterprises

This questionnaire concerns issues of strategic co-operation between Thai financial enterprises and foreign multinational companies. The information gathered by this questionnaire will be confidential and used only for academic purposes.

Please complete each question in sequence unless directed otherwise.

1. Background

1.1) How many foreign partners does your firm co-operate with?

Please circle one

1) one partner	1 (Go to question 1.2, please)
2) two or more partners	2 (Go to question 1.3, please)

1.2) What is the nationality of your partner?

Nationality............................(Go to question 1.4, please)

1.3) What are the nationalities of your partners? *Please start with the most important partner.*

Nationality 1)..................................

2)................................

3)................................

4)................................

5)................................

1.4) Please specify name of your most important partner..

1.5) How long has your international alliance been formed?

.....................Years

1.6) What is the type of your international strategic co-operation? *Please tick one*

O Non-Equity Alliance O Minority-Equity Alliance O Joint Venture

**** Where you have several foreign partners, please recognise that answering the further questions must be relevant only to your most important foreign partner that you specify in 1.4***

1.7) What are the major areas of co-operation between your company and your foreign partners?
(Please tick all which apply)

Customer services	O
Research techniques	O
Securities trading	O
Investment banking services	O
Information technology	O
Lending services	O
Funding businesses	O
Human resource development	O
Others	

If "Other" please specify ....

....

1.8) How are you involved in planning and implementing international alliance strategy?
Please tick all which apply.

O Initiator　　　　OPlanner

OController　　　　OCo-ordinator

Others, please specify...

2. Strategic motivation for international alliance formation

2.1). Please identify the needs stimulating your firm to establish an international network with a foreign partner. *(Please start with the most important need)*

1)..

2)..

3)..

4)..

**** Where you have several foreign partners, please recognise that answering the further questions must be relevant only to your most important foreign partner that you specify in 1.4***

2.2) What were the reasons that stimulated your organisation to choose an international alliance over other alternative growth strategies?

Please circle according to their importance.

	Not at all Important	*Least Important*			*Most Important*
Internal growth					
Too costly	0	1	2	3	4
Too slow	0	1	2	3	4
Advanced technological requirements	0	1	2	3	4
Others, please specify.......................................	0	1	2	3	4
Mergers & Acquisitions					
Too costly	0	1	2	3	4
Too slow	0	1	2	3	4
Advanced technological requirements	0	1	2	3	4
Others, please specify.......................................	0	1	2	3	4

2.3) Please indicate the importance of various motives influencing your organisation to establish international alliances.

Please circle according to their importance	*Least Important*			*Most Important*
1) To promote firms' image and reputation	1	2	3	4
2)To learn sophisticated technology	1	2	3	4
3)To achieve cost competitive edge	1	2	3	4
4)To enhance marketing capability	1	2	3	4
5)To obtain foreign partners' competencies for facilitating international operations	1	2	3	4
6)To utilise foreigner's resources for strengthening competitive position in foreign competition	1	2	3	4
7)To use partner's arm-lengths for a fast international presence	1	2	3	4
8)To acquire partner's securities customer base	1	2	3	4
9)To handle the convergence of customer preferences	1	2	3	4
10)To respond to a variety of customers' needs	1	2	3	4

** Where you have several foreign partners, please recognise that answering the further questions must be relevant only to your most important foreign partner that you specify in 1.4*

Please circle according to their importance	***Least----|---------|------Most***			
	Important			***Important***
11)To deal with changes in market demand conditions	1	2	3	4
12)To accelerate new products/services development	1	2	3	4
13)To survive in the intense global competition	1	2	3	4
14)To reduce degree of foreign competition in the industry	1	2	3	4
15)To reduce the number of existing competitors	1	2	3	4
16)To pre-empt the rise of potential rivals	1	2	3	4
17)To ensure quality of services and resources needed	1	2	3	4
18)To strengthen a long-term services and resources procurement commitment	1	2	3	4
19)To enable speedy services and resources delivery from foreign partners	1	2	3	4
20)Others, please specify..	1	2	3	4
....	1	2	3	4

3. Strategic Criteria for Foreign Partner Selection:

3.1) How did your firm obtain information about the prospective foreign partners?

Please choose one

OMajor shareholders and executives of the firm

OPast client relationships

OThe firm's research department

OOthers, please specify

....

3.2) Which characteristics of the foreign partner did your firm pay the greatest attention to for the purpose of assessing partner appropriateness? *Please list them by starting with your most important characteristics.*

1)...

2)...

3)...

4)...

** Where you have several foreign partners, please recognise that answering the further questions must be relevant only to your most important foreign partner that you specify in 1.4*

3.3) Please indicate how much importance your firm placed on the following foreign partner qualifications or characteristics in the selection process.

Please circle according to their importance.

	Least Important			*Most Important*
1) Differences in major managerial styles	1	2	3	4
2) Consistency of long-term goals with your firm	1	2	3	4
3) Compatible major operational systems	1	2	3	4
4) Compatible size of foreign partners	1	2	3	4
5) Consistent long-term vision of partners' executives	1	2	3	4
6) Quality of customer services	1	2	3	4
7) Financial status of partners	1	2	3	4
8) International image and reputation of partners	1	2	3	4
9) Cross-border experience and expertise	1	2	3	4
10) Quality of management teams	1	2	3	4
11)Geographical dispersion of partners' markets	1	2	3	4
12)Attitudes towards inter-firm collaboration	1	2	3	4
13)Philosophies in respect of human resource operation	1	2	3	4
14)Compatible operational corporate culture	1	2	3	4
15)Consistent business customs of partners	1	2	3	4
16)Predominant language used by foreign partners	1	2	3	4
17)Nationality of foreign partners	1	2	3	4
18)Others, please specify..	1	2	3	4
....	1	2	3	4

3.4) Which are the first 5 nationalities of foreign partners that you prefer? Please list them by starting with the most desired nationality in your opinion. *(Please fill in the blanks)*

Nationality 1...

2...

3...

4...

Please specify why you prefer ***the nationality in the no. 1 position*** (your favourite nationality).

....

**** Where you have several foreign partners, please recognise that answering the further questions must be relevant only to your most important foreign partner that you specify in 1.4***

3.5) Did your firm apply all determined criteria to the foreign partner selection process?

	Please circle one
Yes	1
No	2

3.6) According to your own opinion, do you think whether your firm's partner selection process is effective ?

	Please circle one
Yes	1
No	2

What are the influencing factors affecting the effectiveness of the selection process? *Please tick all which apply*

O The validity of analytical process

O The availability of foreign firms

O The reputation of your firm

O The past relationships between your firm and a prospective partner

O Others, please specify briefly

....

4. Alliance Timing

4.1) ***At the time the international alliance was formed***, what was your opinion with respect to the situation in the Thai financial industry? *(Please tick appropriate box)*

	Strongly Disagree	Disagree	Agree	Strongly Agree
- There was an adequate amount of qualified personnel	O	O	O	O
- Major financial policies were considered sensible	O	O	O	O
- There were sufficient capital and financial resources	O	O	O	O
- The industry was supported by government policies	O	O	O	O
- Thai financial markets were attractive to foreigners	O	O	O	O
- There was strong demand for financial services	O	O	O	O
- High volatility of the industry's demand often existed	O	O	O	O
- Other related and supporting industries were performing well	O	O	O	O
- The industry's competitive condition was intense	O	O	O	O

**** Where you have several foreign partners, please recognise that answering the further questions must be relevant only to your most important foreign partner that you specify in 1.4***

* ***At the time the international alliance was formed***, what was your opinion with respect to the situation of your firm concerning alliance formation? *(Please tick appropriate box)*

	Strongly Disagree	Disagree	Agree	Strongly Agree
- Your firm's overall competitive strategies are effective in that environment	O	O	O	O
- Your firm's management practices were suitable by that business environment	O	O	O	O

* ***At the time the international alliance was formed***, how did you assess your firm' s competitive position in the Thai financial industry?

Please circle one

Firm's position relative to industry average's

	Very Weak	Weaker than Average	Stronger than Average	Very Strong
Accessibility to target customers	1	2	3	4
Geographical dispersion of existing markets	1	2	3	4
Relationships with existing customers	1	2	3	4
A number of physical branches	1	2	3	4
Location advantages of the firm's branches	1	2	3	4
A variety of financial services offered	1	2	3	4
Efficiency of customer services	1	2	3	4
Technical skills of staff	1	2	3	4
Service ability of staff	1	2	3	4
Firm's overall image and reputation	1	2	3	4
Relative firm's size	1	2	3	4
Firm's cost of capital	1	2	3	4
Average fees for the firm's financial services	1	2	3	4

* ***Where you have several foreign partners, please recognise that answering the further questions must be relevant only to your most important foreign partner that you specify in 1.4***

4.2) In your own opinion, at the time of wanting to make alliances, *could your firm attract potential foreign partners?*

	Please circle one
Yes	1
No	2

If yes, why? Please specify the reasons

....

....

If not, why not? Please specify the reasons.

....

....

4.3) Who made the initial approach for this international co-operation?

	Please circle one
1) Your own company	1 (Go to question 4.5, please)
2) Foreign partner(s)	2 (Go to question 4.4, please)
3) Your firm and foreign partner approached each other	3 (Go to question 4.4, please)

4.4) How many foreign companies approached your firm at the time the alliance was established?

	Please circle one
1) One company	1
2) Two companies	2
3) More than 2 companies	3

4.5) Overall, what were the important reasons driving your firm to chose the alliance timing?

	Strongly Disagree	Disagree	Agree	Strongly Agree
- The scarcity of eligible foreign partners	O	O	O	O
- The substantial amount of foreign partners' resources and assets to be quickly gained	O	O	O	O
- The considerable marketing benefits to be achieved	O	O	O	O
-The forces from the external threats	O	O	O	O

** Where you have several foreign partners, please recognise that answering the further questions must be relevant only to your most important foreign partner that you specify in 1.4*

4.6) In conclusion, do you figure that your firm make the alliance at the right timing?

Please circle one

Yes	1
No	2

5. Results of International Collaboration

5.1) In general, how satisfied have you been with the overall performance of the international alliance between your firm and the foreign partner?

Please circle one

Very dissatisfied 1 2 3 4 Very satisfied

5.2) Has your international alliance been terminated?

Please circle one

Yes	(If yes, go to Question 5.3)	1
No	(If yes, go to Question 5.4)	2

5.3) What was the most important reason for international alliance termination?

Please circle one

1) Conflicts between your firm and partner	1
2) The expiry of alliance contract	2
3) Unsatisfactory co-operative performance	3
4) Other, please specify..	4

....

....

5.4) Do you need to improve any aspects in the formation process of your firm's international alliances?

Yes	1
No	2

If yes, please specify why do you need to improve?

....

....

Thank you very much for your co-operation and contributions

* ***Where you have several foreign partners, please recognise that answering the further questions must be relevant only to your most important foreign partner that you specify in 1.4***